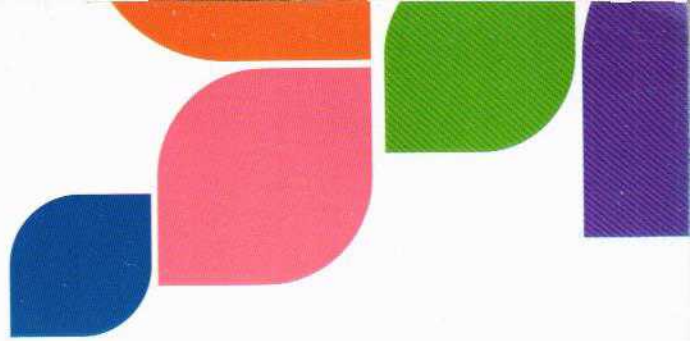


AZGARD-9



Azgard Nine Limited



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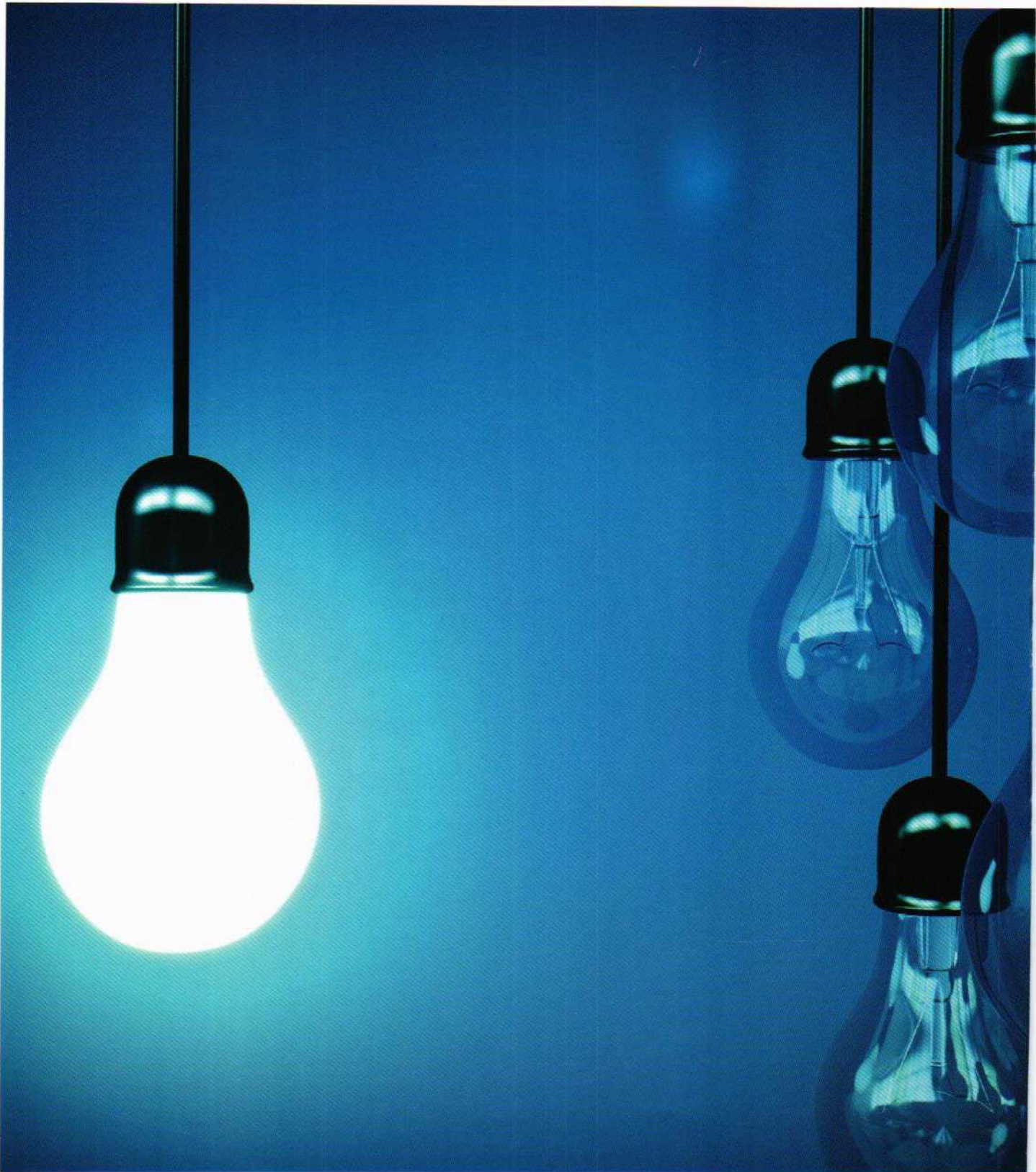
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# Vision and Mission





## ***Vision***

To become a major regional global Fashion Apparel Company

## ***Mission***

To retain a leadership position as the largest value added denim products Company in Pakistan

# Company Information

## BOARD OF DIRECTORS

Mr. Aehsun M.H. Shaikh  
Chairman

Mr. Ahmed H. Shaikh  
Chief Executive

Mr. Nasir Ali Khan Bhatti

Mr. Usman Rasheed

Mr. Farrukh Hussain

Mr. Yasir Habib Hashmi

Mr. Munir Alam

## COMPANY SECRETARY

Mr. Muhammad Ijaz Haider

## CHIEF FINANCIAL OFFICER

Mr. Zahid Rafiq, FCA

## AUDIT COMMITTEE

Mr. Nasir Ali Khan Bhatti  
Chairman

Mr. Aehsun M.H. Shaikh

Mr. Farrukh Hussain

## HR & REMUNERATION COMMITTEE

Mr. Nasir Ali Khan Bhatti  
Chairman

Mr. Ahmed H. Shaikh

Mr. Aehsun M.H. Shaikh

## BANKERS

JS Bank Limited

MCB Bank Limited

Citibank N.A

Faysal Bank Limited

Habib Bank Limited

HSBC Bank Middle East Limited

United Bank Limited

Standard Chartered Bank (Pakistan) Limited

NIB Bank Limited

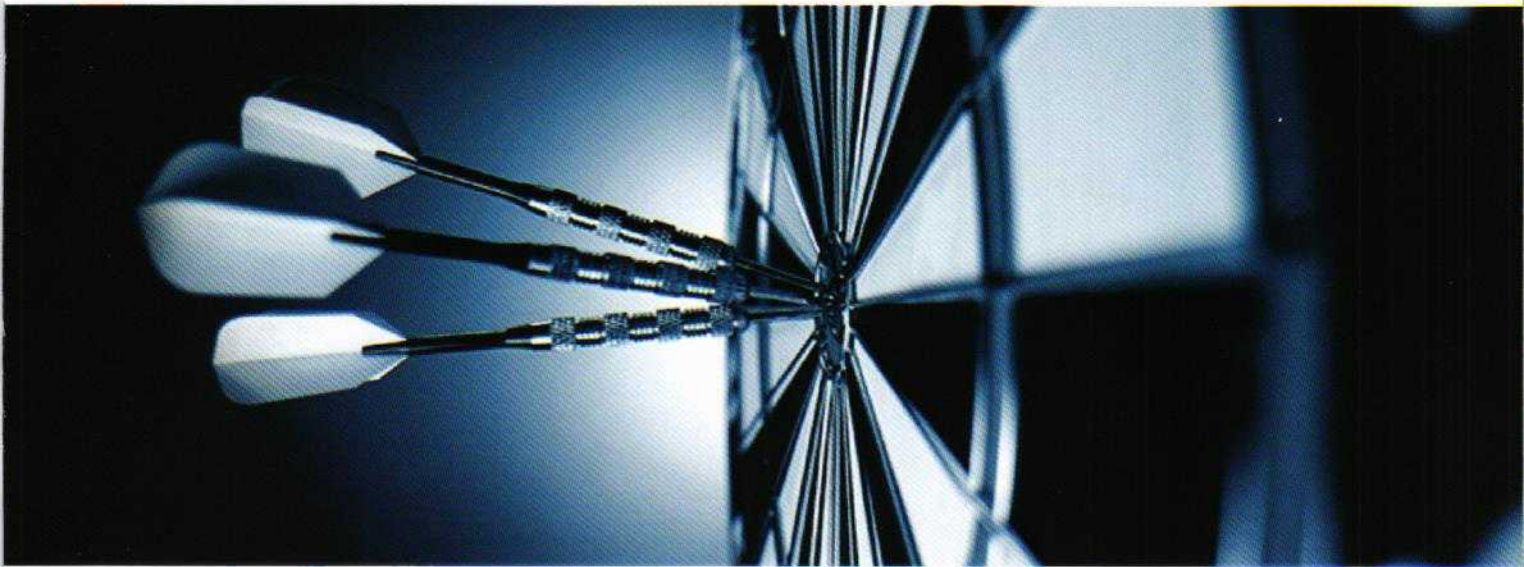
National Bank of Pakistan

Allied Bank Limited

KASB Bank Limited

Silk Bank Limited

Summit Bank Limited



### **BANKERS (Cont'd)**

Al Baraka Bank Pakistan Limited  
 Askari Bank Limited  
 Barclays Bank Limited  
 Bank Al Habib Limited  
 Bank Al Falah Limited  
 Bank Islamic Pakistan  
 Habib Metropolitan Bank  
 Bank of Khyber

### **SHARES REGISTRAR**

M/s Hameed Majeed Associates (Pvt.) Ltd.  
 H. M. House, 7-Bank Square, Lahore  
 Ph: +92(0)42-37235081-82  
 Fax : +92(0)42-37358817

### **AUDITORS**

KPMG Taseer Hadi & Co.  
 Chartered Accountants

### **WEB PRESENCE**

[www.azgard9.com](http://www.azgard9.com)

### **REGISTERED OFFICE**

Ismail Aiwan-e-Science  
 Off Shahrah-e-Roomi Lahore, 54600.  
 Ph: +92(0)42 111-786-645  
 Fax: +92(0)42 3576-1791

### **PROJECT LOCATIONS**

#### **Unit I**

2.5 KM off Manga, Raiwind Road,  
 District Kasur.  
 Ph: +92(0)42 35384081  
 Fax: +92(0)42 35384093

#### **Unit II**

Alipur Road, Muzaffargarh.  
 Ph: +92(0)661 422503, 422651  
 Fax: +92(0)661 422652

#### **Unit III**

20 KM off Ferozepur Road,  
 6 KM Badian Road on Ruhi Nala,  
 Der Khurd, Lahore.  
 Ph: +92(0)42 38460333, 38488862

## Directors' Report to the Shareholders



***The Directors of Azgard Nine Limited ("the Company") along with the management team hereby present the Company's Annual Report accompanied by the Audited Financial Statements for the year ended 30 June 2014.***

***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.***

### **Principal Activities**

The main business of your Company is the production and marketing of Denim focused Textile and Apparel products, ranging from raw cotton to retail ready goods. During the year under review, Azgard Nine Limited maintained its position as one of the largest denim products Company by sales in Pakistan.

Following are the operating financial results of Azgard Nine Limited (Stand alone):

	Year ended 30 June 2014	Year ended 30 June 2013
Sale - net	13,301,847,243	13,739,292,413
Operating loss	(53,715,181)	(1,034,500,371)
Finance cost	1,529,841,093	(2,101,750,204)
(Loss) / profit before tax	(1,992,991,737)	1,101,484,062
(Loss) / profit after tax	(2,125,555,933)	963,944,545
(loss) / earnings per share	(4.673)	2.119

Following are the results of Azgard Nine Limited including subsidiaries (Consolidated):

	Year ended 30 June 2014	Year ended 30 June 2013
Sale - net	13,819,987,246	14,439,185,602
Operating profit / (loss)	42,881,723	(839,281,668)
Finance cost	1,540,495,998	(2,095,622,067)
Loss before tax	(1,895,716,672)	(2,949,492,078)
Loss after tax	(2,028,360,868)	(3,087,031,595)
Gain / (loss) from discontinued operations	-	741,578,839
Total loss	(2,028,360,868)	(2,345,452,756)
(Loss) / earnings per share		
- from continuing operations	(4.459)	(6.787)
- from discontinuing operations	-	2.173





### Review of Textiles and Apparel Business during the year

The year proved very challenging due to a global recessionary climate affecting all facets of business. The Company had to operate in an increasingly competitive global market at a time when local cost of operations continued to go up due to increased utility cost and inflationary pressures. Rupee appreciation against foreign currencies also reduced our export realizations of orders.

During the year working capital of Rs. 700 million from the sale of Agritech Limited (AGL) remained much awaited. Consequently, the planned utilization of optimal installed operational capacities could not materialize. Also the purchases of raw materials during optimum time due to lack of working capital remained at destiny to be achieved.

Additionally the delay in completion of restructuring of financial debt and availability of working capital lines from the financial institutions has a compounding effect on the Company.

Performance of spinning segment was seriously marred due to slump in yarn prices coupled with sharp increase in costs led by cotton as well as increase in electricity tariff which declined its gross margins. Industry had yet to reap the benefits of GSP Plus given by EU effective Jan-14 onwards as it lacked level playing field to tackle energy crises, higher finance cost, blockade of GST Refunds and hike in tariff of gas and electricity.

The Company faced with theses multifaceted and mounting challenges has implemented major cost cutting measures across the Company and is aligning itself with the new realities of market, by exploring every possible opportunity of reducing its cost base and increasing its

value chain efficiencies and improving its value proposition.

### Restructuring of Debts

During the year, the Company announced its second restructuring. The aim of this exercise is to further reduce the overall debt burden and to save the books of Company's lenders from provisioning. A corporate revitalization plan ("CRP") has been shared with the lenders of the Company. Our lenders have been very supportive of the CRP. Their approvals against the plan are in advance stages.

Under the CRP, the Company has offered to sell its certain non-core assets (i.e. Garments Stitching Plant located at Ferozepur Road Lahore, A Ring Spinning Plant Located at Muzafargarh and part of its TFC Investments) under a cash/debt swap arrangement with the prospective buyers of our assets. The Company also intends to increase capital base of the Company (subject to the availability of requisite approvals and regulatory consents).

The CRP proceeds shall be used to retire the existing obligations of the Company. The terms and conditions of the remaining outstanding debt shall be re-profiled in order to enable the Company to service the reduced debt facilities on the restructured terms and conditions and become viable.

The dispute between Dubai Islamic Bank (Pakistan) Limited and the Company has been resolved through "out of Court settlement". Subsequent to year end, the Company received Rs. 394 Mln working capital through this settlement. The balance working capital of Rs. 306 Mln is also expected to be received by us in next few months.

After a heavy reduction of our debt and receipt of remaining working capital, the future outlook of our Company looks very positive.





## Future Outlook -Textile Business

The Company is steadfast on its stated strategic initiatives aimed at enhancing margins by drastically improving operations and affecting across the board cost reductions through consolidation and efficiency in manufacturing.

Steps are being taken to improve the financial health of the Company by major overhauling and consolidation of the Company business which will result in stringer balance sheet with significantly improved debt profile. Notwithstanding the steady improvements and successes, the recovery is estimated to be slow paced.

## Corporate Social Responsibility

Your Company is a responsible corporate citizen and fully recognizes its responsibility towards community, employees and environment.

## Earnings per share

The loss per share for the Company for the year ended 30 June 2014 was Rs (4.673) per share.

## Dividends

Due to circumstances discussed above, the Board of Directors does not recommend dividend for the year ended 30 June 2014.

## Corporate governance & financial reporting framework

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

- The financial statements prepared by the management of the Company present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of accounts of the Company have been maintained;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure therefrom has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored.

- The Board is satisfied that the Company is performing well as going concern under the Code of Corporate Governance.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
- Key operating and financial data for the last six years is annexed.
- There are no statutory payments on account of taxes, duties, levies, and charges which are outstanding as on 30 June 2014 except for those disclosed in the financial statements.
- The value of provident fund investment as at 30 June 2014 was Rs. 38.95 million.
- No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this balance sheet relates and the date of the Director's Report.
- There is a material uncertainty about Company's ability to continue as a going concern; however these financial statements have been prepared on going concern assumption for reasons more fully disclosed in the financial statements.
- The detail of trading in shares of the Company if any carried out by the Directors, CEO, CFO and Company Secretary and their spouses and minor children is provided in pattern of shareholding annexed with this report.
- Company has arranged in-house training program for its Directors.
- The statement of compliance with the best practices of code of corporate governance is provided in this annual report.

## Board of Directors

The Board of directors of the Company is predominantly independent which ensures transparency and good corporate governance. The Board comprises one independent director two non executive directors including the Chairman and four executive directors (including the Chief Executive Officer). The Non executive directors bring to the Company their vast experience of business, government and law, contributing valuable input and ensuring the Company's operations at a high standard of the principles of legal and corporate compliance.

During the period under review, four meetings of the Board of Directors held and the attendance by each director is as

follows:

Name of Directors	Eligibility	Attendance	Remarks
Mr. Ahmed H. Shaikh	4	4	-
Mr. Aehsun M. H. Shaikh	4	2	-
Mr. Nasir Alik Khan Bhatti	4	4	-
Mr. Usman Rasheed	4	4	-
Mr. Naseer Miyan	4	2	-
Mr. Imtiaz Ali Bhatti	0	0	Resigned on 17.09.2013.
Mr. Imran Maqbool	0	0	Resigned on 17.09.2013.
Mr. Yasir Habib Hashmi	4	3	Appointed on 17.09.2013 in place of Mr. Imtiaz Ali Bhatti
Mr. Munir Alam	4	4	Appointed on 17.09.2013 in place of Mr. Imran Maqbool

#### HR & Remuneration Committee Meeting

Name of Directors	Eligibility	Attendance
Mr. Ahmed H. Shaikh	1	1
Mr. Aehsun M. H. Shaikh	1	1
Mr. Nasir Ali Khan Bhatti	1	1

#### AUDIT COMMITTEE MEETING

Name of Directors	Eligibility	Attendance
Mr. Aehsun M. H. Shaikh	4	2
Mr. Naseer Miyan	4	2
Mr. Nasir Ali Khan Bhatti	4	4

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

#### Consolidated financial statements

Consolidated financial statements of the Company together with its subsidiary company Montebello S.R.L are also included.

#### Directors' Training Program

All the directors are professionals and senior executives

who possess wide experience and awareness of the duties of directors. Nevertheless training of directors is an ongoing process and the Company complied with the requirement of the CCG subsequent to the year end by getting training certificate of one of its Director named Mr. Yasir Habib Hashmi from The University of Lahore, duly approved training institution by Securities and Exchange Commission of Pakistan. and two (2) Directors of the Company are exempt from directors training program under provisions of code of corporate governance.

#### Auditors' observations

The auditors qualified their opinion in both standalone and consolidated report due to the fact that the Company could not make timely repayments of principal and interest / mark-up related to long term loans and certain financial and other covenants imposed by lenders could not be complied with. In this scenario, International Accounting Standard 1 - Presentation of Financial Statements requires that if an entity breaches a provision of long term loan, that liability becomes payable on demand and it should be classified as current. However, in our financial statements the long term debts continues to be classified as long term as per respective repayment schedule of loans. Audit observation in their standalone and consolidated audit report regarding Company's ability to continue as going concern due to liquidity issue, in this regard Company is negotiating with the lenders as detailed in restructuring of debt above.

#### Appointment of Auditors

Messers KPMG Taseer Hadi & Co, Chartered Accountants, member firm of KPMG International, a reputable Chartered Accountants firm completed its tenure of appointment with the Company and being eligible has offered its services for another term. The Audit Committee has also recommended their appointment as External Auditors of the Company for the next financial year 2014-2015.

#### Audit committee

The Board of Directors constituted a fully functional Audit Committee comprising three members of whom two are Non Executive Directors and one Independent Director. The terms of reference of the committee, inter alia, consist of ensuring transparent internal audits, accounting and control systems, reporting structure auditors as well as determining appropriate measures to safeguard the Company's assets.

#### Internal audit function

The Board set up an efficient and energetic internal control

system with operational, financial and compliance controls to carry on the businesses of the Company. Internal audit findings are reviewed by the Audit Committee, and where necessary, action is taken on the basis of recommendations contained in the internal audit reports.

### Shareholding pattern

The shareholding pattern as at 30 June 2014 including the information under the Code of Corporate Governance for ordinary shares is annexed.

### Web presence

Annual and periodic financial statements of the Company are also available on the Azgard Nine website [www.azgard9.com](http://www.azgard9.com) for information of the shareholders and others.

### Acknowledgment

The Board takes this opportunity to thank the Company's valued customers and the financial institutions for their corporation and support. The Board greatly appreciates hard work and dedication of all the employees of the Company.

On behalf of the Board of Directors



02 October 2014

Chief Executive Officer

# Notice of Annual General Meeting



Notice is hereby given that the 21st Annual General Meeting of AZGARD NINE LIMITED (the "Company") will be held on Thursday, October 30, 2014 at 10.00 A.M at the Registered Office of the Company Ismail Aiwan-i-Science, Off Shahrah-i-Roomi, Lahore to transact the following business:

1. To confirm the minutes of the last Annual General Meeting held on October 31, 2013;
2. To receive, consider and adopt the financial statements for the year ended June 30, 2014 together with Directors' and Auditors' Reports thereon;
3. To consider re-appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants as external auditors for the financial year ending June 30, 2015 and to fix their remuneration, as per the recommendation of the Board;
4. To discuss any other business that may be brought forward with the permission of the chair.

By Order of the Board

02 October, 2014  
Lahore

(Muhammad Ijaz Haider)  
Company Secretary

## NOTES:

1. The share transfer books of the Company will remain closed from October 23, 2014 to October 30, 2014. (both days inclusive).
2. The Preference Shareholders are not entitled to attend the meeting.
3. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her place. Proxies, complete in every respect, in order to be effective, must be received at the Registered Office of the Company not less than forty eight (48) hours before the time of the meeting.
4. Members who have not yet submitted photocopy of computerized national Identity Card (CNIC) to the Company are requested to send the same at the earliest.
5. CDC Account Holders will further have to follow the under

mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.

## A. FOR ATTENDING THE MEETING:

- i. In case of individuals, the accounts holders and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall authenticate his/her identity by showing his original CNIC or Passport at the time of attending the Meeting.
- ii. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

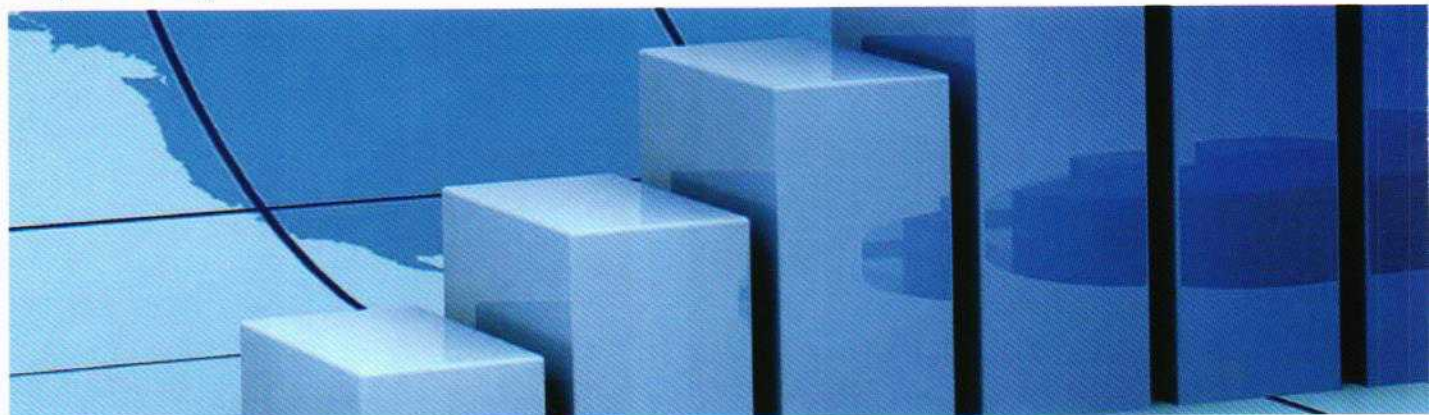
## B. FOR APPOINTING PROXIES:

- i. In case of individuals, the account holders and/or sub-account holder and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per the above requirements.
- ii. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copies of CNIC or the passport of the beneficial owner and the proxy shall be furnished with the proxy form.
- iv. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Share holders are requested to notify any change in their addresses immediately to Company's Shares Registrar M/s Hameed Majeed Associates (Pvt.) Ltd. H. M. House, 7 Bank Square, Lahore.

# Financial Highlights

Six years at a glance



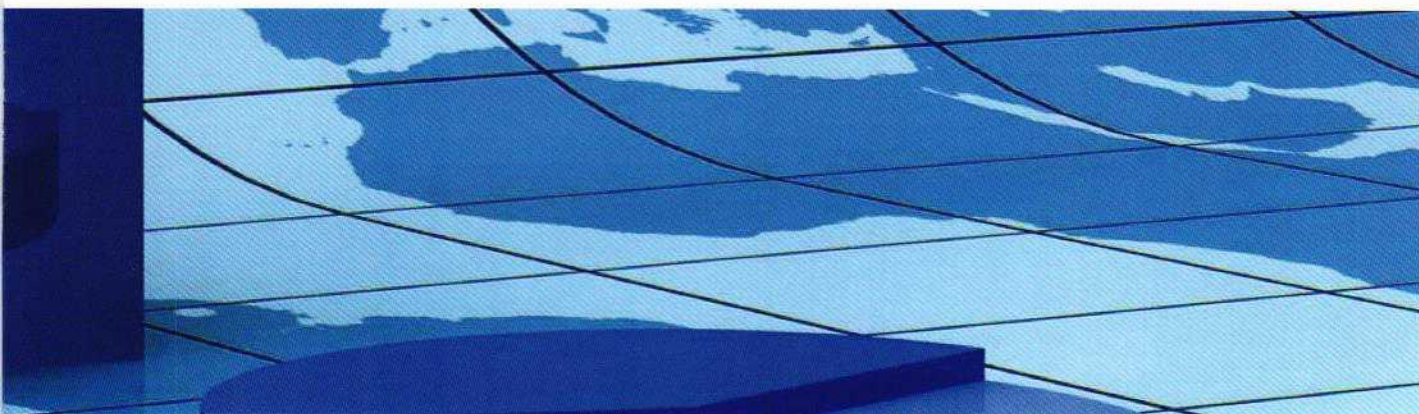
<i>Azgard Nine Limited</i>	Year ended 30 June 2014	Year ended 30 June 2013	Year ended 30 June 2012	Eighteen months ended June 30 2011	Year ended 31 December	
					2009	2008
<b>Operating performance (Rs. 000)</b>						
Sales-net	13,301,847	13,719,626	11,524,279	17,602,765	11,737,857	10,113,499
Export Sales-Gross	11,140,090	11,715,767	9,823,943	14,469,060	10,017,267	8,222,024
Local Sales-Gorss	2,143,612	2,038,185	1,771,498	2,859,903	1,725,461	1,966,476
Gross profit/(loss)	962,330	461,580	(1,118,047)	112,273	3,191,493	3,453,276
Operating (loss)/profit	(53,715)	(1,054,167)	(2,536,243)	(530,541)	2,616,317	3,622,166
Profit/(loss) before tax	(1,992,911)	1,101,484	(5,960,621)	(4,528,951)	178,723	999,503
Loss after tax	(2,125,555)	963,945	(6,076,575)	(4,702,240)	60,531	897,284

<b>Financial position (Rs. 000)</b>						
Total Equity	(748,295)	1,262,286	4,471,164	10,269,064	14,500,553	10,125,083
Surplus on revaluation of property, plant and equipment	4,703,687	3,470,587	3,596,276	3,724,870	3,969,152	219,356
Long term debt	7,846,278	7,830,878	11,512,029	8,468,567	7,080,736	8,189,851
Property, plant and equipment	13,537,283	12,953,017	13,399,121	13,843,422	14,069,896	8,687,157

<b>Financial analysis</b>						
Current ratio	0.48	0.67	1.27	1.48	0.82	1.25
Debt to equity ratio	66:48	62:38	59:41	38:62	33:67	45:55

<b>Profitability analysis</b>						
Operating (loss)/profit to sales (%)	(0.40)	(7.68)	(22.91)	(3.01)	22.29	35.82
Earning/(Loss) per share (Rs.)	(4.67)	2.119	(13.359)	(10.403)	0.003	2.120

\*(excluding current portion of long term debt)

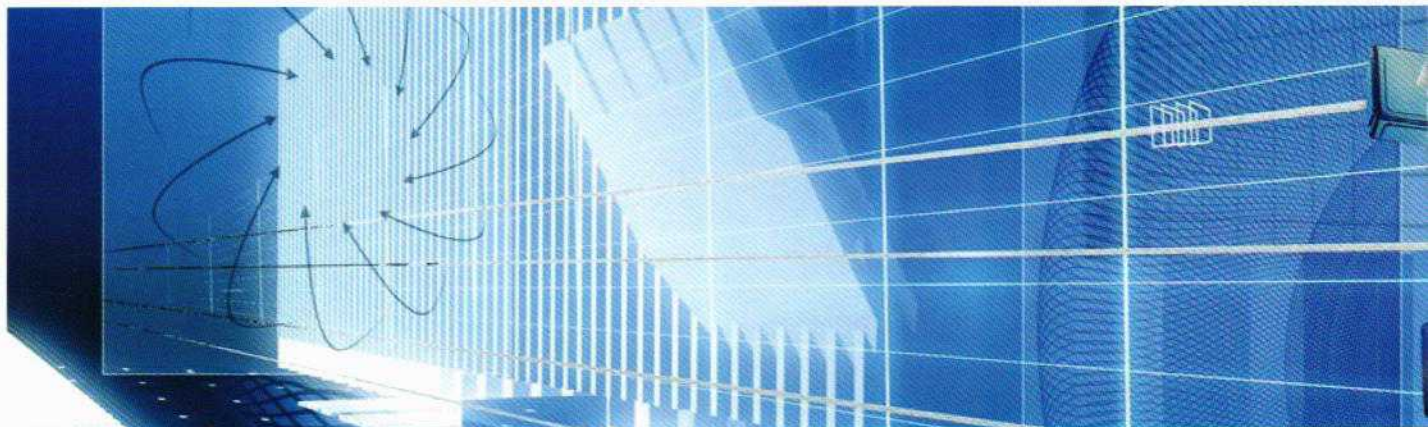


<i>Consolidated</i>	Year ended 30 June 2014	Year ended 30 June 2013	Year ended 30 June 2012	Eighteen months ended 30 June 2011	Year ended 31 December	
					2009	2008
<b>Operating performance (Rs. 000)</b>						
Sales - net	13,819,987	14,439,186	11,907,437	29,048,102	26,276,262	19,737,424
Export sales - gross	11,663,546	12,439,502	10,237,604	13,296,159	11,751,841	8,238,448
Local sales - gross	2,143,612	2,038,185	1,771,498	15,889,321	14,680,850	11,724,806
Gross (loss) / profit	1,240,067	744,517	(1,042,450)	3,686,308	8,293,405	6,822,906
Operating (loss) / profit	42,881	(839,282)	(2,805,555)	1,410,076	6,238,196	6,013,480
Loss before tax	(1,895,716)	(2,949,492)	(6,192,837)	(5,447,817)	1,363,061	1,629,430
Loss after tax	(2,028,360)	(3,087,032)	(6,308,791)	(4,264,773)	1,537,929	1,397,393
Gain / (loss) from discontinued operations	-	741,579	(1,646,592)	-	-	-
Total (loss) / profit	-	(2,345,453)	(7,955,384)	(4,264,773)	1,537,929	1,397,393
<b>Financial position (Rs. 000)</b>						
Total equity	(813,590)	(942,614)	(248,312)	7,243,546	11,842,203	9,759,139
Surplus on revaluation of property, plant and equipment	4,703,687	3,470,587	6,746,439	7,003,958	3,969,152	219,356
Long term debt	7,846,278	7,830,878	11,512,029	26,561,610	20,127,565	21,040,014
Property, plant and equipment	13,555,411	12,973,011	13,416,312	50,168,926	37,077,131	25,631,529
<b>Financial analysis</b>						
Current ratio*	0.54	0.74	1.16	0.60	0.98	0.98
Debt to equity ratio	66:85	64:36	53:47	65:35	63:37	68:32
<b>Profitability analysis</b>						
Operating (loss) / profit to sales (%)	0.31	(5.81)	(23.43)	4.85	23.74	30.47
(Loss) / earnings per share - continuing operations	(4.46)	(6.787)	(13.869)	(9.441)	3.351	3.385
Earnings / (loss) per share - discontinued operations	-	2.173	(3.053)	-	-	-

\* (excluding current portion of long term debt)

# Statement of Compliance

With best practices of the Code of Corporate Governance



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

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

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

Category	Names
Independent Director	Nasir Ali Khan Bhatti
Executive Directors	Ahmed H. Shaikh, Usman Rasheed, Yasir Habib Hashmi, Munir Alam
Non-executive Directors	Aehsun M.H. Shaikh, Naseer Miyan

The independent director meets the criteria of independence under clause i (b) of the Code.

Election of Directors due on 25 August 2012 could not be held due to a stay order of the Honorable Civil Court of Lahore ("the Court"). The said election will be held after the Court order is vacated.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. During the year following Directors resigned:

- i. Mr. Imtiaz Ali Bhatti resigned on September 17, 2013; and

- ii. Mr. Imran Maqbool resigned on September 17, 2013.

The vacancies were filled up by the directors within 90 days by appointing the following directors.

- i. Mr. Yasir Habib Hashmi appointed on September 17, 2013; and

- ii. Mr. Munir Alam appointed on September 17, 2013.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All directors are professionals and senior executives who possess wide experience and awareness of the duties of directors. Nevertheless training of directors is an ongoing process and the Company complied with the requirement of the Code subsequent to the year end by getting training certificate of one of its Director from The University of



Lahore, duly approved training institution by Securities and Exchange Commission of Pakistan.

10. The Board has approved remuneration and terms and conditions of employment of CFO, Company Secretary and Head of Internal Audit.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of three members, of whom one is non-executive director and the chairman of the committee is a non-executive director.
18. The board has set up an effective internal audit function which is considered suitably qualified and experience for the purpose and is conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board of Directors

02 October 2014

Chief Executive Officer

# Review Report to the Members on the Statement of Compliance

with the Code of Corporate Governance



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
2nd Floor,  
Servis House,  
2-Main Gulberg Jail Road,  
Lahore.

Telephone + 92 (42) 3579 0901-6  
Fax + 92 (42) 3579 0907  
Internet www.kpmg.com.pk

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Azgard Nine Limited ("the Company") for the year ended 30 June 2014 to comply with the requirements of Listing Regulation No. 35 of the Karachi Stock Exchange where the Company is listed.

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

As 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 Code requires 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 of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. 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 any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 30 June 2014.

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	Description
i) Paragraph 1	Election of Directors was not held due to a stay order of the Honourable Civil Court of Lahore ("the Court").
ii) Paragraph 9	Directors' Training Program was arranged subsequent to year end.

Date: 02 October 2014

Lahore

KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Kamran Iqbal Yousafi)

## Financial Statements

## Auditors' Report to the Members



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
2nd Floor,  
Servis House,  
2-Main Gulberg Jail Road,  
Lahore.

Telephone + 92 (42) 3579 0901-6  
Fax + 92 (42) 3579 0907  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

We have audited the annexed balance sheet of **Azgard Nine Limited** ("the Company") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) as stated in note 2.4 and 40.2.2 to the financial statements, the Company could not make timely repayments of principal and interest / mark-up related to long term debts and as at reporting date certain financial and other covenants imposed by the lenders could not be complied with. International Accounting Standard on Presentation of financial statements (IAS - 1) 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 should classify the liability as current. In these financial statements the long term debts have been classified as long term according to the individual loan repayment schedules. Had these liabilities been classified as per IAS - 1, current liabilities of the Company would have increased by Rs. 5,904.99 million as at the reporting date;
- b) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- c) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;



KPMG Taseer Hadi & Co.

- d) in our opinion and to the best of our information and according to the explanations given to us, except for the effects on the financial statements of the matter referred in paragraph (a) above, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- e) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to the matter that during the year ended 30 June 2014, the Company has incurred loss before tax of Rs. 1,992.91 million and as of that date, its current liabilities exceeded its current assets by Rs. 5,969.14 million, including Rs. 4,555.74 million relating to overdue principal and mark-up thereon, and its accumulated loss stood at Rs. 8,714.67 million. The difference between current liabilities and current assets would be Rs. 11,874.13 million, had the Company classified its long term debts as current for reasons more fully explained in the note 2.4 to the financial statements. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements have however been prepared on a going concern basis for the reasons more fully explained in note 2.3 to the financial statements. Our opinion is not qualified in respect of this matter.

Date: 02 October 2014  
Lahore

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KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Kamran Iqbal Yousafi)

# Balance Sheet

as at 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>EQUITY AND LIABILITIES</b>			
<i>Share capital and reserves</i>			
Authorized share capital	5	15,000,000,000	15,000,000,000
Issued, subscribed and paid-up capital	5	4,548,718,700	4,548,718,700
Reserves	6	3,417,654,719	3,417,653,853
Accumulated losses		(8,714,668,872)	(6,704,086,654)
		(748,295,453)	1,262,285,899
Surplus on revaluation of fixed assets	7	4,703,687,542	3,470,587,281
		3,955,392,089	4,732,873,180
<i>Non-current liabilities</i>			
Redeemable capital - secured	8	3,799,216,500	4,563,334,050
Long term finances - secured	9	1,493,304,926	1,646,718,198
Liabilities against assets subject to finance lease - secured	10	20,783,684	-
		5,313,305,110	6,210,052,248
<i>Current liabilities</i>			
Current portion of non-current liabilities	11	2,068,876,610	832,991,069
Short term borrowings	12	4,579,605,634	4,819,186,842
Trade and other payables	13	2,560,280,282	2,526,245,640
Interest / mark-up accrued on borrowings	14	2,214,256,456	1,501,702,254
Dividend payable	15	13,415,572	13,415,572
Provision for taxation	26	77,861,036	39,252,658
		11,514,295,590	9,732,794,035
Contingencies and commitments	16		
		20,782,992,789	20,675,719,463
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	17	13,537,283,593	12,953,017,078
Intangibles	18	-	1,302,407
Long term investments	19	1,681,304,686	1,726,766,466
Long term deposits - unsecured, considered good	20	19,253,047	24,477,987
		15,237,841,326	14,705,563,938
<i>Current assets</i>			
Stores, spares and loose tools	21	132,749,270	130,970,353
Stock in trade	22	1,546,298,008	2,211,143,101
Trade debts	23	2,420,618,482	2,149,837,255
Advances, deposits, prepayments and other receivables	24	722,725,894	645,945,212
Short term investment	25	700,000,000	700,000,000
Cash and bank balances	27	22,759,809	132,259,604
		5,545,151,463	5,970,155,525
		20,782,992,789	20,675,719,463

The annexed notes 1 to 48 form an integral part of these financial statements.



Lahore

Chief Executive



Director

## Profit and Loss Account

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
Sales - net	28	13,301,847,243	13,739,292,413
Cost of sales	29	(12,339,516,394)	(13,258,045,955)
<b>Gross profit</b>		<b>962,330,849</b>	<b>481,246,458</b>
Selling and distribution expenses	30	(621,181,351)	(1,058,753,127)
Administrative and general expenses	31	(394,864,679)	(456,993,702)
<b>Operating loss</b>		<b>(53,715,181)</b>	<b>(1,034,500,371)</b>
Other income	32	60,378,407	4,356,133,683
Other expenses	33	(469,733,870)	(118,399,046)
Finance cost	34	(1,529,841,093)	(2,101,750,204)
<b>(Loss) / profit before taxation</b>		<b>(1,992,911,737)</b>	<b>1,101,484,062</b>
Taxation	35	(132,644,196)	(137,539,517)
<b>(Loss) / profit after taxation</b>		<b>(2,125,555,933)</b>	<b>963,944,545</b>
<b>(Loss) / earnings per share -basic and diluted</b>	36	<b>(4.673)</b>	<b>2.119</b>

The annexed notes 1 to 48 form an integral part of these financial statements.




## Statement of Comprehensive Income

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
(Loss) / profit after taxation		(2,125,555,933)	963,944,545
<b><u>Other comprehensive income / (loss)</u></b>			
<i>Items that are or may be reclassified to profit and loss account:</i>			
Changes in fair value of available for sale financial assets		866	16,390
Fair value gain realized on sale of available for sale financial asset reclassified to profit and loss account	32	-	(4,298,527,869)
		866	(4,298,511,479)
<b>Total comprehensive loss for the year</b>		<b><u>(2,125,555,067)</u></b>	<b><u>(3,334,566,934)</u></b>

The annexed notes 1 to 48 form an integral part of these financial statements.




# Cash Flow Statement

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b><u>Cash flows from operating activities</u></b>			
Cash generated from operations	37	575,109,669	135,274,297
Interest / mark-up paid		(303,131,080)	(1,143,001,527)
Taxes paid - net		(94,035,818)	(91,869,771)
Long term deposits - net		31,200	(1,183,955)
<b>Net cash generated from / (used in) operating activities</b>		<b>177,973,971</b>	<b>(1,100,780,956)</b>
<b><u>Cash flows from investing activities</u></b>			
Capital expenditure		(110,527,645)	(75,789,159)
Proceeds from disposal of property, plant and equipment		100,648,090	3,110,329
Proceeds from sale of investment in Agritech Limited		-	3,491,590,474
<b>Net cash (used in) / generated from investing activities</b>		<b>(9,879,555)</b>	<b>3,418,911,644</b>
<b><u>Cash flows from financing activities</u></b>			
Repayment to Agritech Limited		-	(269,622,566)
Redemption of Term Finance Certificates		-	(199,997)
Repayment of long term finances		(21,000,000)	(990,663,587)
Repayment of liabilities against assets subject to finance lease		(3,013,048)	(2,673,704)
Net increase / (decrease) in short term borrowings		94,479,366	(456,552,369)
<b>Net cash generated from / (used in) financing activities</b>		<b>70,466,318</b>	<b>(1,719,712,223)</b>
<b>Net increase in cash and cash equivalents</b>		<b>238,560,734</b>	<b>598,418,465</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>(943,909,552)</b>	<b>(1,542,328,017)</b>
<b>Cash and cash equivalents at end of the year</b>	38	<b>(705,348,818)</b>	<b>(943,909,552)</b>

The annexed notes 1 to 48 form an integral part of these financial statements.




## Statement of Changes in Equity for the year ended 30 June 2014

	Issued, subscribed and paid-up capital	Capital reserves			Revenue reserves		Total equity Rupees
		Share premium Rupees	Reserve on merger Rupees	Preference share redemption reserve Rupees	Available for sale financial assets Rupees	Accumulated losses Rupees	
As at 01 July 2012	4,548,718,700	2,358,246,761	105,152,005	661,250,830	4,591,515,736	(7,793,719,801)	4,471,164,231
Total comprehensive income for the year	-	-	-	-	-	963,944,545	963,944,545
Profit for the year ended 30 June 2013	-	-	-	-	(4,298,511,479)	-	(4,298,511,479)
Other comprehensive loss for the year ended 30 June 2013	-	-	-	-	(4,298,511,479)	963,944,545	(3,334,566,934)
Total comprehensive loss for the year	-	-	-	-	(4,298,511,479)	963,944,545	(3,334,566,934)
Transfer of incremental depreciation from surplus on revaluation of fixed assets	-	-	-	-	-	125,688,602	125,688,602
As at 30 June 2013	4,548,718,700	2,358,246,761	105,152,005	661,250,830	293,004,257	(6,704,086,654)	1,262,285,899
Total comprehensive income for the year	-	-	-	-	-	(2,125,555,933)	(2,125,555,933)
Loss for the year ended 30 June 2014	-	-	-	-	866	-	866
Other comprehensive income for the year 30 June 2014	-	-	-	-	866	(2,125,555,933)	(2,125,555,067)
Total comprehensive loss for the year	-	-	-	-	866	(2,125,555,933)	(2,125,555,067)
Transfer of incremental depreciation from surplus on revaluation of fixed assets	-	-	-	-	-	114,973,715	114,973,715
As at 30 June 2014	4,548,718,700	2,358,246,761	105,152,005	661,250,830	293,005,123	(8,714,668,872)	(748,295,453)

The annexed notes 1 to 48 form an integral part of these financial statements.

Lahore



Chief Executive



Director

# Notes to the Financial Statements

## for the year ended 30 June 2014

### 1 Reporting entity

Azgard Nine Limited ("the Company") was incorporated in Pakistan as a public limited company and is listed on Karachi Stock Exchange (Guarantee) Limited. The Company is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacturing of yarn, denim and denim products. The registered office of the Company is situated at Ismail Aiwan-e-Science, off Shahrah-e-Roomi, Lahore. The Company has three production units with Unit I located at 2.5 km off Manga, Raiwind Road, District Kasur, Unit II at Alipur Road, Muzaffargarh and Unit III at 20 km off Ferozpur Road, 6 km Badian Road on Ruhi Nala, Der Khurd, Lahore.

### 2 Basis of preparation

#### 2.1 Separate financial statements

These financial statements are the separate financial statements of the Company in which investment in subsidiary is accounted for on the basis of direct equity interest rather than on the basis of reported results and net assets of the investees. Consolidated financial statements of the Company are prepared separately.

The Company has following investment:

#### Subsidiary

Name of company	Country of incorporation	Shareholding
Montebello s.r.l.	Italy	100%

#### 2.2 Statement of compliance

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

#### 2.3 Going concern assumption

During the year, though the Company generated positive cash flows from operations however due to recessionary trends and other economic conditions, the desired profitability remained unachieved. During the year working capital of Rs. 700 million from the sale of Agritech Limited (AGL) remained much awaited. Consequently, the planned utilization of optimal installed operational capacities could not materialize. Purchases of raw materials during optimum time remained unachieved.

Due to above mentioned reasons, the Company has incurred a loss before tax of Rs. 1,992.912 million for the year ended 30 June 2014 and, as of that date its current liabilities exceeded its current assets by Rs. 5,969.144 million, including Rs. 4,555.743 million relating to overdue principal and mark-up thereon, and its accumulated loss stood at Rs. 8,714.669 million. These conditions cast a significant doubt about the Company's ability to continue as a going concern. These financial statements have however, been prepared on a going concern basis. The assumption that the Company would continue as a going concern is based on the measures as explained in the succeeding paragraph and expectation of future profitability and more positive cash flows from operating activities.

Subsequent to year end, the Company has received Rs. 394 million out of the total Rs. 700 million due from sale of AGL. The remaining balance of Rs. 306 million is expected to be received in one year's time. The Company has also entered in second round of financial restructuring through a plan which includes disposal of low profile assets combined with debt restructuring. In this regards, various intended buyers have shown interest for purchase of such assets. Further, lenders have also been contacted for debt restructuring. Subsequent to realization of proceeds from sale of these assets the Company is hopeful that with receipt of remaining working capital and completion of debt restructuring, target of sustainable capacity utilization will be achieved. Management is confident that through these measures the Company would turnaround in to a profitable Company, subject to impact, if any, of uncontrollable external circumstances including power crises and global market conditions.

#### 2.4 Financial liabilities

The Company could not make timely repayments of principal and interest / mark-up related to long term debts as referred to in note 40.2.2. Further, as at the reporting date, the Company could not comply with certain financial and other covenants imposed by the lenders. As per the agreed terms of long term debts the lenders have unconditional right to call the loans if timely repayments are not made or covenants are not complied with. International Accounting Standard on Presentation of financial statements (IAS - 1) 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 should classify the liability as current.

# Notes to the Financial Statements

for the year ended 30 June 2014

However, the long term debts in the amount of Rs. 5,904.985 million as detailed below have been classified as long term as per the repayment schedules in the financial statements as the management considers that event of default has not been declared by the lenders and also because of the fact that the Company is in discussion with its lenders for reprofiling of its long term debts:

	<b>Principal net of current maturity</b>
	<b>Rupees</b>
<b><u>Redeemable capital</u></b>	
Term Finance Certificates - II	564,486,303
Term Finance Certificates - IV	940,288,196
Term Finance Certificates - V	135,322,995
Privately Placed Term Finance Certificates -VI	2,253,069,000
Privately Placed Term Finance Certificates	299,251,502
Privately Placed Term Finance Certificates	199,100,000
	<u>4,391,517,996</u>
<b><u>Long term finances</u></b>	
Deutsche Investitions - Und MBH (Germany)	946,537,228
Saudi Pak Industrial and Agricultural Company Limited	37,885,850
HSBC Bank (Middle East) Limited	160,143,201
Citi Bank N.A (Pakistan)	368,900,652
	<u>1,513,466,931</u>
	<u><b>5,904,984,927</b></u>

## 2.5 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments at fair value, certain financial instruments at amortized cost and certain items of property, plant and equipment at revalued amounts. In these financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

## 2.6 Judgments, estimates and assumptions

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

### 2.6.1 Depreciation method, rates and useful lives of property, plant and equipment

The management of the Company reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Company expects to derive from that item and the maximum period up to which such benefits are expected to be available. The rates of depreciation are specified in note 17.1.

### 2.6.2 Recoverable amount of assets / cash generating units and impairment

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

### 2.6.3 Fair values based on inputs from other than active market

Fair values of financial instruments, which are based on inputs from other than active market are determined using valuation techniques which incorporate all factors that market participants would consider in setting a price and use inputs that reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

# Notes to the Financial Statements

for the year ended 30 June 2014

## 2.6.4 Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities while estimating its tax liabilities.

## 2.6.5 Provisions

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.

## 2.6.6 Revaluation of fixed assets

Revaluation of fixed assets 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.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

## 2.6.7 Contingencies

The Company has disclosed its contingent liabilities for the pending litigations and claims against the Company based on its judgment and the advice of the legal advisors for the estimated financial outcome. The actual outcome of these litigations and claims can have an effect on the carrying amounts of the liabilities recognized at the balance sheet date. However, based on the best judgment of the Company and its legal advisors, the likely outcome of these litigations and claims is remote and there is no need to recognize any liability at the balance sheet date.

## 2.6.8 Provision for doubtful debts, advances and other receivables

The Company reviews the recoverability of trade debts, advances and other receivables at each reporting date to assess whether provision should be recorded in profit and loss account. In particular, judgement by management is required in estimates of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on certain assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

## 2.6.9 Stores, spares loose tools and stock in trade

The Company reviews the stores, spares, loose tools and stock in trade for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores, spares, loose tools and stock in trade with a corresponding affect on the provision.

## 2.7 Functional currency

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

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is measured at revalued amount less accumulated impairment losses, plant and machinery and building which are measured at revalued amount less accumulated depreciation and accumulated impairment losses and capital work in progress, which is stated at cost less accumulated impairment losses. 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.

Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item 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 property, plant and equipment are recognized in profit and loss account as incurred.

## Notes to the Financial Statements

for the year ended 30 June 2014

The Company recognizes depreciation in profit and loss account by applying reducing balance method over the useful life of each item of property, plant and equipment using rates specified in note 17.1 to the financial statements. Depreciation on additions to property, plant and equipment 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.

An item of property, plant and equipment is de-recognized when permanently retired from use. Any gain or loss on disposal of property, plant and equipment is recognized in profit and loss account.

### 3.2 Surplus / deficit arising on revaluation of fixed assets

The surplus on revaluation of fixed assets is accounted for and utilized in accordance with the provisions of Section 235 and S.R.O. 45(1) / 2003 issued under the Companies Ordinance, 1984.

### 3.3 Intangibles

Intangibles are measured initially at cost. The cost of the intangibles acquired comprises its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition. Costs incurred after the asset is in the condition necessary for it to operate in the manner intended by the management are recognized in profit and loss account. Subsequent to initial recognition, intangibles are measured at cost less accumulated amortization and accumulated impairment losses, if any.

All intangibles are amortized over the period, not exceeding five years, over which the Company expects to obtain economic benefits, on a straight line basis. All intangibles are tested for impairment at each reporting date. The particular measurement methods adopted are disclosed in the individual policy statements associated with each intangible asset.

### 3.4 Research and development expenditure

Research activities are activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditure on research activities is recognized in profit and loss account as and when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized and recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has the sufficient technical, financial and other resources to complete development and to use or sell the asset or its output for which a market exists. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparation of the asset for its intended use. All other development expenditure is recognized in profit and loss account as and when incurred. The intangible asset so recognized is initially measured at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any. Expenditure previously recognized in profit and loss account is not capitalized as part of the cost of intangible asset.

### 3.5 Stores, spares and loose tools

These are stated at lower of cost and net realizable value. Cost is determined using the weighted average method. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

### 3.6 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 materials	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Stock in transit	Invoice price plus related expense incurred up to the reporting date

Average manufacturing cost in relation to work in process and finished goods consists of direct material, labour and a proportion of appropriate 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 the Financial Statements

## for the year ended 30 June 2014

### 3.7 Employee benefits

#### 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 profit and loss account unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. 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.

#### Post-employment benefits

The Company operates an approved defined contributory provident fund for its employees. Equal contributions are made by the Company and employees at 8.50% of basic salary.

### 3.8 Investments

The Company classifies its investments into following classes depending on the purpose for which the investments are made. Investments are either classified as investment in subsidiary, investment in debt security or financial instruments as follows:

#### 3.8.1 Investment in subsidiary

Investments in equity securities of subsidiaries are classified as 'available for sale financial assets'. On initial recognition these are measured at cost, being their fair value on date of acquisition, less attributable transaction costs. Subsequent to initial recognition, investments in equity securities of subsidiaries are measured at fair value. Changes in fair value are recognized in other comprehensive income until the investment is derecognized or impaired. Gains and losses on de-recognition and impairment losses are recognized in profit and loss account.

#### 3.8.2 Financial instruments

A financial instrument is recognized when the Company becomes a party to the contractual provisions of the instrument. The Company classifies its financial instruments into following classes depending on the purpose for which the financial assets and liabilities are acquired or incurred. The Company determines the classification of its financial assets and liabilities at initial recognition.

#### 3.8.2(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are either designated as such on initial recognition or are classified as held for trading. Financial assets are designated as financial assets at fair value through profit or loss if the Company manages such assets and evaluates their performance based on their fair value in accordance with the Company's risk management and investment strategy. Financial assets are classified as held for trading when these are acquired principally for the purpose of selling and repurchasing in the near term, or when these are part of portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of profit taking, or where these are derivatives, excluding derivatives that are financial guarantee contracts or that are designated and effective hedging instruments. Financial assets in this category are presented as current assets. The Company does not have any financial assets classified as financial asset at fair value through profit or loss as at the balance sheet date.

#### 3.8.2(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity investments unless these are designated on initial recognition as financial assets at fair value through profit or loss or available for sale financial assets or these meet the definition of loans and receivables. Where, as a result of change in intention or ability to hold financial assets initially classified as held-to-maturity investments to maturity or where due to sales or reclassification of a significant amount of held-to-maturity investments, classification as held-to-maturity investments is no longer appropriate, these are reclassified as available for sale financial assets. Financial assets in this category are presented as non-current assets except for maturities within twelve months from the reporting date where these are presented as current assets. The Company does not have any investment classified as held-to-maturity investment as at the reporting date.

#### 3.8.2(c) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Assets in this category are presented as current assets except for maturities greater than twelve months from the reporting date, where these are presented as non-current assets. The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

## Notes to the Financial Statements

for the year ended 30 June 2014

### **3.8.2(d) Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as such on initial recognition or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Assets in this category are presented as non-current assets unless the management intends to dispose off the asset within twelve months from the reporting date. The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

### **3.8.2(e) Financial liabilities at amortized cost**

Non-derivative financial liabilities that are not financial liabilities at fair value through profit or loss are classified as financial liabilities at amortized cost. Financial liabilities in this category are presented as current liabilities except for maturities greater than twelve months from the reporting date where these are presented as non-current liabilities. Carrying values of financial liabilities as at the balance sheet date approximates their amortized cost.

### **3.8.2(f) Derivative financial instruments**

Derivatives are classified as financial assets and liabilities at fair value through profit or loss unless the derivative is a designated and effective hedging instrument or a financial guarantee contract. Derivatives are initially recognized at cost, being fair value on the date the contract is entered into by the Company. Subsequent to initial recognition these are measured at fair value. Gains and losses arising from changes in fair value of derivatives classified as financial assets and liabilities at fair value through profit or loss are recognized in profit or loss. Where derivatives are designated hedging instruments the method of recognizing gains and losses arising from changes in fair value depends on the nature of item being hedged. The Company designates derivatives as either a fair value hedge or a cash flow hedge.

#### **Fair value hedges**

These are hedges of the fair value of recognized assets or liabilities or a firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit and loss account, together with changes in fair value of hedged asset or liability that are attributable to the hedged risk.

#### **Cash flow hedges**

These are hedges of a particular risk associated with the fair value of recognized asset or liability or a highly probable forecast transaction. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity to the extent hedge is effective. The gain or loss relating to the ineffective portion is recognized in profit and loss account.

### **3.8.3 De-recognition**

Financial assets are de-recognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Company's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in profit and loss account.

### **3.8.4 Off-setting**

A financial asset and a financial liability is offset and the net amount reported in the balance sheet 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.

### **3.8.5 Regular way purchases and sales of financial assets**

Regular way purchases and sales of financial assets are recognized on trade dates.

### **3.9 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 and loss account over the period of the borrowings on an effective interest basis.

# Notes to the Financial Statements

## for the year ended 30 June 2014

### 3.10 Leases

Leases are classified as finance lease whenever terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and non-current depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit and loss account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

### 3.11 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.

### 3.12 Trade and other receivables

#### 3.12.1 Financial assets

These are classified as 'loans and receivables'. On initial recognition, these are measured at cost, being their fair value at the date of transaction, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit and loss account.

#### 3.12.2 Non-financial assets

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

### 3.13 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer.

Dividend income is recognized when the Company's right to receive payment is established.

Interest income is recognized as and when accrued on effective interest method.

### 3.14 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 profit and loss account as incurred.

### 3.15 Income tax

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

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### Current tax

Current tax is the amount of tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, 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.

#### 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 the 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.

#### **3.16 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.

#### **3.17 Cash and cash equivalents**

Cash and cash equivalents comprise running finances, cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

#### **3.18 Foreign currency transactions and balances**

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognized in profit and loss account.

#### **3.19 Impairment**

##### **3.19.1 Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss in respect of a financial asset measured at fair value is determined by reference to that fair value. All impairment losses are recognized in profit and loss account. 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.

# Notes to the Financial Statements

for the year ended 30 June 2014

## 3.19.2 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 cost 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 assets or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss account. 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 to determine 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.

## 3.20 Dividend distribution

Dividend is recognized as a liability in the period in which it is declared. However, there is a restriction on dividend declaration under Master Restructuring and Inter creditor Agreement.

## 4 New and revised approved accounting standards, interpretations and amendments thereto

### New standards, amendments to approved accounting standards and interpretations which became effective during the year ended 30 June 2014

There were certain new standards and amendments to the approved accounting standards which became effective during the year but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

### New standards, amendments to approved accounting standards and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Company's financial statements.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Company's financial statements.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.
- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

## Notes to the Financial Statements

for the year ended 30 June 2014

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company's financial statements.
- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements.
- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets / operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016.
- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and / or unconsolidated structured entities, into one place.
- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

## Notes to the Financial Statements

### for the year ended 30 June 2014

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

		2014	2013
		Rupees	Rupees
<b>5</b>	<b>Share capital</b>		
	<b><i>Authorized share capital</i></b>		
	Ordinary shares of Rs. 10 each		
	900,000,000 (2013: 900,000,000) voting shares	9,000,000,000	9,000,000,000
	300,000,000 (2013: 300,000,000) non-voting shares	3,000,000,000	3,000,000,000
		<b>12,000,000,000</b>	12,000,000,000
	Preference shares of Rs. 10 each		
	300,000,000 (2013: 300,000,000) non-voting shares	3,000,000,000	3,000,000,000
		<b>15,000,000,000</b>	15,000,000,000
	<b><i>Issued, subscribed and paid-up capital</i></b>		
	Voting ordinary shares of Rs. 10 each		
	323,712,733 (2013: 323,712,733) shares fully paid in cash	3,237,127,330	3,237,127,330
	62,548,641 (2013: 62,548,641) shares issued as fully paid bonus shares	625,486,410	625,486,410
	12,276,073 (2013: 12,276,073) shares issued as consideration for machinery	122,760,730	122,760,730
	50,811,992 (2013: 50,811,992) shares issued as consideration on merger	508,119,920	508,119,920
		<b>4,493,494,390</b>	4,493,494,390
	Non-voting ordinary shares of Rs. 10 each		
	4,753,719 (2013: 4,753,719) shares fully paid in cash	47,537,190	47,537,190
	768,712 (2013: 768,712) shares issued as fully paid bonus shares	7,687,120	7,687,120
		<b>55,224,310</b>	55,224,310
		<b>4,548,718,700</b>	4,548,718,700

As at 30 June 2014, Jahangir Siddiqui & Co. Limited, an associated undertaking, holds 112,157,863 (2013: 112,157,863) number of voting ordinary shares of the Company.

		2014	2013
		Rupees	Rupees
<b>6</b>	<b>Reserves</b>		
	Share premium	2,358,246,761	2,358,246,761
	Merger reserve	105,152,005	105,152,005
	Redemption of preference shares	661,250,830	661,250,830
	Available for sale financial assets	293,005,123	293,004,257
		<b>3,417,654,719</b>	3,417,653,853

#### 6.1 Share premium

This represents excess of consideration received on issue of ordinary shares over face value of ordinary shares issued.

## Notes to the Financial Statements

for the year ended 30 June 2014

### 6.2 Reserve on merger

This represents reserve arising on merger of Nafees Cotton Mills Limited into Legler Nafees Denim Mills (presently Azgard Nine Limited) on 19 December 2002.

### 6.3 Preference shares redemption reserve

This reserve has been created for redemption of preference shares issued by the Company as required to be created and maintained under the terms of issue and section 85 of the Companies Ordinance, 1984.

### 6.4 Available for sale financial assets

This represents surplus on revaluation of investments classified as available for sale financial assets.

	2014 Rupees	2013 Rupees
<b>7 Surplus on revaluation of fixed assets</b>		
As at beginning of the year	3,470,587,281	3,596,275,883
Surplus on revaluation of fixed assets	1,348,073,976	-
Less: incremental depreciation transferred to accumulated loss	(114,973,715)	(125,688,602)
As at end of the year	<u>4,703,687,542</u>	<u>3,470,587,281</u>

The Company's freehold land, buildings on freehold land and plant and machinery were revalued by Maricon Consultants (Private) Limited, an independent valuator not connected with the Company and approved by Pakistan Banks' Association (PBA) in "any amount" category, on 30 June 2014. The basis of revaluation for items of fixed assets were as follows:

#### Freehold Land

Property brokers, dealers and estate agents were contacted to ascertain the asking and selling prices for properties of the same nature in the immediate neighbourhood and adjoining areas. Neighbouring properties which have been recently sold or purchased, were investigated to ascertain a reasonable selling / buying price. Properties that were up for sale were examined for asking price. An average of the above values was then assigned to the property.

#### Buildings on freehold land

Construction specifications were noted for each building and structure and new construction rates / GI sheet with iron structure were used to obtain replacement values of buildings, to which a depreciation formula was applied, based upon our estimates of balance life to arrive at the current assessed value.

#### Plant and machinery

Plant and machinery have been evaluated / assessed by keeping in view their present physical condition, the remaining useful life / economic life and technological obsolescence. Further, new replacement values for the similar type of plant and machinery were inquired from various dealers / vendors and manufacturers of plant accessories. The new replacement values were depreciated using reducing balance method of depreciation to determine the best estimates of the assessed / depreciated replacement values.

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>8 Redeemable capital - secured</b>			
Term Finance Certificates - II	8.1	651,066,836	651,066,836
Term Finance Certificates - IV	8.2	1,083,768,528	1,083,768,528
Term Finance Certificates - V	8.3	527,682,637	527,682,637
Privately Placed Term Finance Certificates - VI	8.4	3,218,670,000	3,218,670,000
Privately Placed Term Finance Certificates	8.5	326,456,184	326,456,184
Privately Placed Term Finance Certificates	8.6	217,200,000	217,200,000
		<b>6,024,844,185</b>	<b>6,024,844,185</b>
Less: deferred notional income	8.7	(545,601,982)	(856,485,545)
Less: transaction cost	8.8	(46,699,514)	(57,772,282)
		<b>5,432,542,689</b>	<b>5,110,586,358</b>
Less: current maturity presented under current liabilities	11	(1,633,326,189)	(547,252,308)
		<b>3,799,216,500</b>	<b>4,563,334,050</b>

- 8.1 These Term Finance Certificates - II ("TFC - II") have been issued by way of private placements and public subscription and are listed on Karachi Stock Exchange (Guarantee) Limited. The total issue comprises of 428,734 certificates of Rs. 5,000 each. The terms and conditions of the issue as per Amendment No. 1 to Master Restructuring and Intercreditor Agreement ("MRA-1") dated 11 April 2012 are as follows:

### Principal redemption

The principal redemption of TFC - II is structured to be in ten un-equal installments. First instalment amounting to Rs. 847.582 million was settled by the Company in the previous year. Remaining nine installments are to be paid semi-annually starting from 20 September 2013 and ending on 20 September 2017.

### Return on TFCs

The issue carries return as per the following applicable mark-up rates, payable semi-annually;

Six months KIBOR plus 1.00% per annum in 2010 - 2011  
Six months KIBOR plus 1.25% per annum in 2012 - 2015  
Six months KIBOR plus 1.75% per annum in 2016 onwards

### Trustee

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed with power to enforce the Company's obligations in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and Master Restructuring and Intercreditor Agreement ("MRA").

### Security

For detail of securities refer to note 8.9.

At the reporting date principal amounting to Rs. 37.627 million and interest / mark-up amounting to Rs. 209.639 million was overdue. Refer to note 40.2.2 for details.

- 8.2 These Term Finance Certificates - IV ("TFC - IV") have been issued by way of private placements. The total issue comprises of 500,000 certificates of Rs. 5,000 each. The terms and conditions of the issue as per MRA-1 dated 11 April 2012 are as follows:

### Principal redemption

The principal redemption of TFC - IV is structured to be in ten un-equal installments. First instalment amounting to Rs. 1,414.231 million was settled by the Company in the previous year. Remaining nine installments are to be paid semi-annually starting from 04 December 2013 and ending on 04 December 2017.

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### Return on TFCs

The issue carries return as per the following applicable mark-up rates, payable semi-annually;

Six months KIBOR plus 1.00% per annum in 2010 - 2011  
 Six months KIBOR plus 1.25% per annum in 2012 - 2015  
 Six months KIBOR plus 1.75% per annum in 2016 onwards

#### Trustee

In order to protect the interests of TFC holders, Pak Brunei Investment Company remains trustee of the issue, with power to enforce the Company's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA.

#### Security

For detail of securities refer to note 8.9.

At the reporting date principal amounting to Rs. 62.085 million and interest / mark-up amounting to Rs. 377.812 million was overdue. Refer to note 40.2.2 for details.

- 8.3 These Term Finance Certificates - V ("TFC - V") represent restructuring of various short term facilities amounting to Rs. 825.000 million. The total issue comprised of 165,000 TFCs having face value of Rs. 5,000 each. The terms and conditions of the issue as per MRA-1 dated 11 April 2012 are as follows:

#### Principal redemption

The principal redemption of TFC - V is structured to be in nine un-equal installments. First instalment amounting to Rs. 295.937 million was settled by the Company in the previous year. Remaining eight installments are to be paid quarterly starting from 18 February 2014 and ending on 18 November 2015.

#### Return on TFCs

The issue carries return as per the following applicable mark-up rates, payable quarterly:

Twelve months KIBOR plus 1.00% per annum from 18 May 2010 till 18 May 2011  
 Three months KIBOR plus 1.00% per annum from 18 May 2011 till 18 November 2011  
 Three months KIBOR plus 1.25% per annum from 18 November 2011 onwards

#### Trustee

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed, with power to enforce the Company's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA.

#### Security

For detail of securities refer to note 8.9.

At the reporting date principal amounting to Rs. 125.674 million and interest / mark-up amounting to Rs. 149.032 million was overdue. Refer to note 40.2.2 for details.

- 8.4 This represent restructuring of outstanding mark-up amounting to Rs. 3,218.670 million related to long term debts and short term borrowings till 31 March 2012. The total issue comprises of 643,734 TFCs having face value of Rs. 5,000 each. The terms and conditions of the issue are as follows:

#### Principal redemption

The principal redemption of TFCs is structured to be in seven unequal semi annual installments starting from 31 March 2014 and ending on 31 March 2017.

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### Call option

The Company shall be allowed to call the PPTFC's in full or in part. Call option will be exercisable at any time after the expiry of one year from the issue date and upon giving to the TFC holders not less than thirty days notice in writing, to redeem on the following redemption date.

#### Return on PPTFCs

The issue carries nil return (also refer to note 8.7).

#### Trustee

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed, with power to enforce the Company's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA-1.

#### Security

The issue is secured by:

- Ranking hypothecation charge in favor of the Trustee over the hypothecated assets in the amount of up to Rs. 4,666.667 million; and
- Ranking mortgage charge over the mortgaged properties in the amount of up to Rs. 4,666.667 million

At the reporting date principal amounting to Rs. 321.867 million was overdue. Refer to note 40.2.2 for details.

- 8.5 These represent restructuring of outstanding principal amounting to Rs. 256.020 million and outstanding mark-up along with preference dividend and other charges amounting to Rs. 70.436 million related to preference shares into fresh issue of Privately Placed Term Finance Certificates ("PPTFCs") by way of Settlement Agreement ("the Agreement") between the Company and JS Global Capital Limited dated 22 October 2012 effective from 19 October 2012. The total issue comprised of 12 PPTFCs having face value of Rs. 27.205 million each. The terms and conditions of the issue are as follows:

#### Principal redemption

The principal redemption of PPTFCs is structured to be in twelve equal installments amounting to Rs. 27.205 million each. Installments are to be paid semi-annually starting from 19 April 2015 and ending on 19 October 2020.

#### Return on PPTFCs

The issue carries a fixed mark-up rate at 11.00% per annum.

#### Trustee

In order to protect the interests of PPTFC holders, JS Bank Limited has been appointed as Trustee under a Trust Deed for the issue of PPTFCs entered on 23 October 2012, with power to enforce the Company's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the Trust Deed.

#### Security

The issue is secured by personal Guarantee of Sponsor Director.

At the reporting date interest / mark-up amounting to Rs. 8.847 million was overdue. Refer to note 40.2.2 for details.

- 8.6 These represent restructuring of outstanding principal amounting to Rs. 170.132 million and outstanding mark-up along with preference dividend and other charges amounting to Rs. 47.068 million related to preference shares into fresh issue of Privately Placed Term Finance Certificates ("PPTFCs") by way of Settlement Agreement ("the Agreement") between the Company and Lenders dated 22 October 2012 effective from 19 October 2012. The total issue comprised of 21,720 PPTFCs having face value of Rs. 10,000 each. The terms and conditions of the issue are as follows:

#### Principal redemption

The principal redemption of PPTFCs is structured to be in twelve equal installments amounting to Rs. 18.100 million each. Installments are to be paid semi-annually starting from 19 April 2015 and ending on 19 October 2020.

## Notes to the Financial Statements

for the year ended 30 June 2014

### Return on PPTFCs

The issue carries a fixed mark-up rate at 11.00% per annum.

### Trustee

In order to protect the interests of PPTFC holders, JS Bank Limited has been appointed as Trustee under a Trust Deed for the issue of PPTFCs entered on 23 October 2012, with power to enforce the Company's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the Trust Deed.

### Security

The issue is secured by personal Guarantee of Sponsor Director.

At the reporting date interest / mark-up amounting to Rs. 5.886 million was overdue. Refer to note 40.2.2 for details.

- 8.7 This represents the difference between amortized cost and face value of zero-coupon Privately Placed Term Finance Certificates - VI, with five year maturity (refer to note 8.4). Amortized cost has been determined using effective interest rate of 13.23% per annum being the weighted average rate of return on redeemable capital. Movement is as follows:

	Note	2014 Rupees	2013 Rupees
<u>Deferred notional income</u>			
As at beginning of the year		856,485,545	1,124,890,714
Less: amortized during the year	34	(310,883,563)	(268,405,169)
As at end of the year		<u>545,601,982</u>	<u>856,485,545</u>

### 8.8 Transaction costs

As at beginning of the year		57,772,282	74,354,806
Less: amortized during the year	34	(11,072,768)	(16,582,524)
As at end of the year		<u>46,699,514</u>	<u>57,772,282</u>

### 8.9 Common security

All redeemable capital and long term finances except for TFC - VI and PPTFCs have been secured by way of common security which is as follows:

- First charge in favor of National Bank of Pakistan, as Security trustee for the benefit of the Financers, on all present and future assets and properties of the Company.
- Personal Guarantee of Sponsor Director.

	Note	2014 Rupees	2013 Rupees
<b>9 Long term finances - secured</b>			
Deutsche Investitions - Und MBH (Germany)	9.1	946,537,228	907,054,269
Saudi Pak Industrial and Agricultural Company Limited	9.2	43,251,155	43,251,155
HSBC Bank (Middle East) Limited	9.3	234,602,579	255,602,579
Citi Bank N.A (Pakistan)	9.4	567,539,466	567,539,466
		<u>1,791,930,428</u>	<u>1,773,447,469</u>
Less: transaction costs	9.6	(20,162,005)	(21,944,566)
		<u>1,771,768,423</u>	<u>1,751,502,903</u>
Less: current maturity presented under current liabilities	11	(278,463,497)	(104,784,705)
		<u>1,493,304,926</u>	<u>1,646,718,198</u>

## Notes to the Financial Statements

for the year ended 30 June 2014

- 9.1** This represents Euros 15 million obtained from Deutsche Investitions - Und MBH (Germany) ("DEG") to finance the setup of new textile and apparel project. As per the rescheduling terms, the loan is payable in twenty-one un-equal installments. In the previous year, first installment amounting to Rs. 641.221 million was settled by the Company. Remaining twenty installments are to be paid quarterly starting from 15 July 2015. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable quarterly:

Six months EURIBOR plus 3.25% per annum till date of sale of AGL  
 Three months EURIBOR plus 0.75% per annum from date of sale of AGL to 14 July 2015  
 Three months EURIBOR plus 1.00% per annum from 15 July 2015 onwards

In addition to the above, additional interest of 2% per annum will be levied if principal and mark-up are not paid on due dates.

At the reporting date principle amounting to Rs. 946.537 million and interest / mark-up including penalty mark-up amounting to Rs. 83.594 million was overdue. Refer to note 40.2.2 for details.

- 9.2** The finance has been obtained from Saudi Pak Industrial and Agricultural Company Limited for long term working capital requirements. As per MRA - 1 dated 11 April 2012, loan is payable in eighteen un-equal installments. First installment amounting to Rs. 56.749 million was settled by the Company in the previous year. Remaining seventeen installments are to be paid quarterly starting from 13 November 2013 and ending on 13 November 2017. For detail of securities refer to note 8.9.

As per rescheduling agreement the finance carries mark-up as per the following applicable mark-up rates, payable quarterly:

Six months KIBOR plus 1.00% per annum in 2010 - 2011  
 Six months KIBOR plus 1.25% per annum in 2012 - 2015  
 Six months KIBOR plus 1.75% per annum in 2016 onwards

In addition to the above, additional interest of 5.00% per annum will be levied if mark-up is not paid on due dates.

At the reporting date principal amounting to Rs. 2.211 million and interest / mark-up including default interest amounting to Rs. 18.602 million was overdue. Refer to note 40.2.2 for details.

- 9.3** The finance has been obtained from HSBC Bank Middle East Limited for long term working capital requirements. As per MRA-1 dated 11 April 2012, the loan is payable in nine un-equal installments. First installment amounting to Rs. 7.511 million was settled by the Company in the previous year. Remaining eight installments are to be paid semi-annually starting from 01 May 2013 and ending on 01 November 2016. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable semi-annually:

Six months KIBOR plus 1.00% per annum in 2010 - 2012  
 Six months KIBOR plus 1.25% per annum in 2013 onwards

At the reporting date principal amounting to Rs. 24.82 million and interest / mark-up amounting to Rs. 61.328 million was overdue. Refer to note 40.2.2 for details.

- 9.4** As part of the overall debt restructuring, the finance was converted from various short term borrowings. As per MRA-1 dated 11 April 2012, the loan is payable in six un-equal installments. Installment are to be paid semi-annually starting from 01 May 2014 and ending on 01 November 2016. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable semi-annually:

Six months KIBOR plus 1.00% per annum in 2010 - 2012  
 Six months KIBOR plus 1.25% per annum in 2013 onwards

At the reporting date principal amounting to Rs. 56.754 million and interest / mark-up amounting to Rs. 134.022 million was overdue. Refer to note 40.2.2 for details.

- 9.5** At the reporting date interest / mark-up amounting to Rs. 83.623 million related to long term loans which were fully settled by the Company in the previous year was overdue. Refer to note 40.2.2 for details.

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>9.6 Transaction costs</b>			
As at beginning of the year		<b>21,944,566</b>	28,254,867
Less: amortized during the year	34	<b>(1,782,561)</b>	(6,310,301)
As at end of the year		<b>20,162,005</b>	21,944,566

### 10 Liabilities against assets subject to finance lease - secured

The amounts of future payments for the lease and the period in which the lease payments will become due are as follows:

	Note	2014 Rupees	2013 Rupees
Present value of minimum lease payments	10.1 & 10.2	<b>29,503,353</b>	32,586,801
Less: current maturity presented under current liabilities	11	<b>(8,719,669)</b>	(32,586,801)
		<b>20,783,684</b>	-

**10.1** This represent plant and machinery acquired under finance lease arrangement and is secured by specific charge on leased assets, joint ownership of leased assets with the lender and lien over documents of title. The lease is priced at six months KIBOR plus 1.50% (2013: three months to twelve months KIBOR plus 2.00% to 4.00%) per annum. 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 the respective lease terms and intends to exercise the option. The lease was rescheduled during the year as a result of which the remaining rentals are payable monthly and the lease liability is completing on 15 June 2017.

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

	Note	2014 Rupees	2013 Rupees
Not later than one year		<b>11,695,680</b>	40,918,058
Later than one year but not later than five years		<b>23,391,360</b>	-
Total future minimum lease payments		<b>35,087,040</b>	40,918,058
Less: finance charge allocated to future periods		<b>(5,583,687)</b>	(8,331,257)
Present value of future minimum lease payments		<b>29,503,353</b>	32,586,801
Not later than one year	11	<b>(8,719,669)</b>	(32,586,801)
Later than one year but not later than five years		<b>20,783,684</b>	-

### 11 Current portion of non-current liabilities

Preference shares of Rs. 10 each (2013: Rs. 10 each)	11.1	<b>148,367,255</b>	148,367,255
Redeemable capital	8	<b>1,633,326,189</b>	547,252,308
Long term finances	9	<b>278,463,497</b>	104,784,705
Liabilities against assets subject to finance lease	10.2	<b>8,719,669</b>	32,586,801
		<b>2,068,876,610</b>	832,991,069

**11.1** These represent non-voting, non-participatory, partly convertible and cumulative preference shares which were redeemable upto 24 September 2010.

At the reporting date, entire outstanding amount of preference shares was overdue. Refer to note 40.2.2 for details. The Company intends to settle its remaining liability towards preference shares through conversion into a fresh issue of financial instruments.

# Notes to the Financial Statements

for the year ended 30 June 2014

## 12 Short term borrowings

### Secured

These represent short term finances utilized under interest / mark-up arrangements from banking companies and financial institutions.

	Note	2014 Rupees	2013 Rupees
Running finance	12.1	728,108,627	1,076,169,156
Term loan	12.1	3,661,938,004	3,550,598,236
Morabaha / Salam	12.1	189,559,003	192,419,450
		<u>4,579,605,634</u>	<u>4,819,186,842</u>

12.1 These facilities have been obtained from various banking companies and financial institutions for working capital requirements and are secured by Common Security (refer to note 8.9), lien over documents of title of imported goods, lien over firm export orders, trust receipts, demand promissory notes, counter guarantees, pledge of stocks, ranking charge amounting to Rs. 750.000 million on current and future assets of the Company.

Mark-up on these finances is payable quarterly / semi-annually. Local currency finances carry mark-up at rates ranging from one to twelve months KIBOR plus 1.00% per annum (2013: one to six months KIBOR plus 1.00% per annum). Foreign currency finances carry mark up at rates ranging from LIBOR / EURIBOR of matching tenor plus 2.00% to 4.00% per annum (2013: LIBOR of matching tenor plus 2.00% to 6.50% per annum). Mark-up on pre / post shipment finances refinanced by the State Bank of Pakistan is payable at SBP refinance rate of 8.40% per annum plus banks' spread of 1.00% per annum (2013: 8.20% to 10.00% per annum plus banks' spread of 1.00% per annum). Morabaha / LPO carry mark-up at rates ranging from six to twelve months KIBOR plus 1.00% to 3.00% per annum (2013: six to twelve months KIBOR plus 1.00% to 3.00% per annum). Letters of credit / guarantee carry commission at rates ranging from 0.10% to 0.15% per quarter (2013: 0.10% to 0.15% per quarter). Certain finances also carry a penalty interest / mark-up.

At the reporting date interest / mark-up amounting to Rs. 114.593 million, Rs. 473.074 million and Rs. 65.438 million was overdue in respect of running finance, term loan and morabaha / LPO respectively. Further, principal amounting to Rs. 646.443 million was overdue in respect of term loan. Refer to note 40.2.2 for details.

12.2 At the reporting date interest / mark-up amounting to Rs. 63.283 million related to bridge finance which was settled in the previous year was overdue. Refer to note 40.2.2 for details.

12.3 The aggregate available short term funded facilities amounts to Rs. 6,488 million (2013: Rs. 7,149 million) out of which Rs. 1,913 million (2013: Rs. 2,338 million) remained unavailed as at the reporting date. Limits available for opening of letters of credit amounts to Rs. 521 million (2013: Rs. 521 million) of which the limits remaining unutilized as at the reporting date amounts to Rs. 190 million (2013: Rs. 128 million).

12.4 The borrowings from related party have been disclosed in note 39.2.2 to the financial statements.

	Note	2014 Rupees	2013 Rupees
<b>13 Trade and other payables</b>			
Trade and other creditors		1,701,247,168	1,615,111,688
Bills payable	13.1	345,833,562	385,516,037
Accrued liabilities		305,789,065	303,875,359
Advances from customers		66,093,124	64,724,636
Payable to Provident Fund Trust	13.2	54,950,366	83,897,625
Workers' Profit Participation Fund	13.3	62,391,516	55,243,056
Tax deducted at source		9,538,791	10,492,869
Other payables		14,436,690	7,384,370
		<u>2,560,280,282</u>	<u>2,526,245,640</u>

## Notes to the Financial Statements

for the year ended 30 June 2014

**13.1** At the reporting date bills payable amounting to Rs. 268.234 million and interest / mark-up amounting to Rs. 56.936 million were overdue. Refer to note 40.2.2 for details.

**13.2** Interest on outstanding liability towards Provident Fund Trust is charged at 16.10% (2013: 16.10%) per annum being the rate higher than the average rate of return of the Provident Fund Trust.

	Note	2014 Rupees	2013 Rupees
<b>13.3</b> As at the beginning of the year		55,243,056	47,015,367
Interest for the year	13.3.1	7,148,460	8,227,689
As at the end of the year		<u>62,391,516</u>	<u>55,243,056</u>

**13.3.1** Interest on outstanding liability towards Workers' Profit Participation Fund is charged at bank rate plus 2.50% per annum as required under the Companies Profits (Workers' Participation) Act, 1968.

	Note	2014 Rupees	2013 Rupees
<b>14 Interest / mark-up accrued on borrowings</b>			
Redeemable capital		858,505,670	587,769,949
Long term finances		396,929,304	243,861,238
Short term borrowings		958,821,482	670,071,067
		<u>2,214,256,456</u>	<u>1,501,702,254</u>

### 15 Dividend payable

Unclaimed dividend on ordinary shares		4,002,037	4,002,037
Dividend payable on preference shares	15.1	9,413,535	9,413,535
		<u>13,415,572</u>	<u>13,415,572</u>

**15.1** Preference dividend was due for payment on 21 November 2010, however no payments have been made up to the reporting date. In the previous year the Company has partially adjusted the preference dividend against the new issue of PPTFCs. The management intends to settle this amount along with the settlement of outstanding overdue preference shares.

### 16 Contingencies and commitments

#### 16.1 Contingencies

**16.1.1** Several ex-employees of AGL have filed a petition against the Company demanding terminal benefits including those under the golden hand shake scheme. The claim, valued at Rs. 8.0 million, is pending before the Honorable Lahore High Court and the Company expects a favorable outcome.

**16.1.2** The Company has issued indemnity bonds amounting to Rs. 175.638 million (2013: Rs. 212.437 million) in favour of Collector of Customs and Sales Tax department in lieu of levies under various statutory notifications and these are likely to be released after the fulfillment of the terms of related notifications.

**16.1.3** Counter guarantees given by the Company to its bankers as at the reporting date amount to Rs. 180.352 million (2013: Rs. 167.605 million).

**16.1.4** Bills discounted as at reporting date aggregated to Rs. 1,486.760 million (2013 Rs: 1,937.219 million).

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>16.2 Commitments</b>			
<b>16.2.1</b> Commitments under irrevocable letters of credit for:			
- purchase of stores, spare and loose tools		1,709,166	-
- purchase of raw material		21,714,687	43,889,430
		<u>23,423,853</u>	<u>43,889,430</u>
<b>16.2.2</b> Commitments for capital expenditure		<u>38,505,194</u>	<u>705,600</u>
<b>17 Property, plant and equipment</b>			
Operating fixed assets	17.1	13,501,345,326	12,952,810,186
Capital work in progress	17.2	35,938,267	206,892
		<u>13,537,283,593</u>	<u>12,953,017,078</u>

# Notes to the Financial Statements

for the year ended 30 June 2014

## 17.1 Operating fixed assets

Particulars	30 June 2014										Net book value as at 30 June 2014 Rupees				
	Cost / revalued amount					Depreciation									
	As at 01 July 2013 Rupees	Revaluation surplus Rupees	Additions Rupees	Transfers Rupees	Disposals Rupees	As at 30 June 2014 Rupees	Rate %	As at 01 July 2013 Rupees	Revaluation surplus Rupees	For the year Rupees		Impairment Rupees	Transfers Rupees	Disposals Rupees	As at 30 June 2014 Rupees
<b>Owned assets:</b>															
<b>Freehold land</b>															
- cost	558,010,025	-	-	-	-	558,010,025	-	-	-	-	-	-	-	-	558,010,025
- revaluation	719,724,975	636,030,000	-	-	-	1,355,754,975	-	-	-	-	-	-	-	-	1,355,754,975
	1,277,735,000	636,030,000	-	-	-	1,913,765,000	-	-	-	-	-	-	-	-	1,913,765,000
<b>Buildings on freehold land</b>															
- cost	2,687,315,149	-	15,715,907	-	-	2,703,031,056	2.5	577,039,040	-	52,867,213	-	-	-	-	2,073,774,803
- revaluation	703,339,295	487,535,137	-	-	-	1,190,874,432	2.5	174,421,503	116,984,797	13,227,945	-	-	-	-	886,440,187
	3,391,654,444	487,535,137	15,715,907	-	-	3,894,705,488		751,460,543	116,984,797	66,095,158	-	-	-	-	2,960,164,990
<b>Plant and machinery</b>															
- cost	9,665,883,266	-	45,138,317	177,935,588	(415,441,636)	9,473,315,515	4-5	3,428,611,589	-	269,409,949	250,000,000	92,472,721	(283,520,762)	3,756,973,397	5,716,342,118
- revaluation	3,733,396,598	575,524,753	-	-	-	4,308,921,351	4-5	1,511,852,082	234,031,117	101,745,770	-	-	-	1,847,428,969	2,461,492,382
	13,399,079,864	575,524,753	45,138,317	177,935,588	(415,441,636)	13,782,236,866		4,940,263,671	234,031,117	371,155,619	250,000,000	92,472,721	(283,520,762)	5,604,402,366	8,177,834,500
<b>Furniture, fixtures and office equipment</b>															
	198,235,740	-	2,226,091	-	(213,500)	200,288,331	10	106,689,758	-	9,252,205	-	-	(94,414)	115,847,549	85,090,782
<b>Vehicles</b>															
	82,355,026	-	870,000	682,690	(10,545,231)	73,362,485	20	60,833,589	-	4,069,180	-	496,816	(7,885,972)	57,713,613	15,648,872
<b>Tools and equipment</b>															
	403,410,294	-	7,316,654	-	-	410,726,948	10	153,398,515	-	25,513,786	-	-	-	178,812,301	231,814,647
<b>Electrical installations</b>															
	180,114,648	-	3,529,301	-	-	183,643,949	10	88,639,944	-	9,286,370	-	-	-	97,926,314	86,077,635
	18,933,375,016	1,699,089,880	74,796,270	178,618,238	(426,200,367)	20,485,979,067		6,103,286,020	351,015,914	485,372,218	250,000,000	92,969,537	(291,301,148)	6,989,342,641	13,470,336,226
<b>Assets subject to finance lease</b>															
<b>Plant and machinery</b>															
Vehicles	215,444,944	-	-	(177,935,588)	-	37,509,376	4-5	94,942,431	-	4,030,766	-	(92,472,721)	-	6,500,476	31,008,500
	682,690	-	-	(682,690)	-	464,013	20	464,013	-	32,803	-	(496,816)	-	-	-
	216,127,634	-	-	(178,618,238)	-	37,509,376		95,406,444	-	4,063,569	-	(92,969,537)	-	6,500,476	31,008,500
	13,149,302,650	1,699,089,890	74,796,270	-	(426,200,367)	20,487,188,443		6,196,692,464	351,015,914	489,435,687	250,000,000	-	(291,301,148)	6,995,843,117	13,501,345,326

# Notes to the Financial Statements

for the year ended 30 June 2014

Particulars	30 June 2013										Net book value as at 30 June 2013 Rupees	
	Cost / revalued amount					Depreciation						
	As at 01 July 2012 Rupees	Additions Rupees	Transfers Rupees	Disposals Rupees	As at 30 June 2013 Rupees	Rate %	As at 01 July 2012 Rupees	For the year Rupees	Transfers Rupees	Disposals Rupees		As at 30 June 2013 Rupees
<b>Owned assets</b>												
<b>Freehold land</b>												
- cost	558,010,025	-	-	-	558,010,025	-	-	-	-	-	-	558,010,025
- revaluation	719,724,975	-	-	-	719,724,975	-	-	-	-	-	-	719,724,975
	1,277,735,000	-	-	-	1,277,735,000	-	-	-	-	-	-	1,277,735,000
<b>Buildings on freehold land</b>												
- cost	2,680,259,983	7,655,166	-	-	2,687,915,149	2.5	523,423,391	53,615,649	-	-	-	2,110,876,109
- revaluation	703,539,295	-	-	-	703,539,295	2.5	160,466,029	13,955,474	-	-	-	529,117,792
	3,383,799,278	7,655,166	-	-	3,391,454,444		683,889,420	67,571,123	-	-	-	2,639,993,901
<b>Plant and machinery</b>												
- cost	9,611,260,727	51,844,039	2,578,500	-	9,665,683,266	2 - 5	3,151,356,096	276,600,949	654,544	-	-	6,237,071,677
- revaluation	3,733,396,598	-	-	-	3,733,396,598	2 - 5	1,399,918,957	111,733,125	-	-	-	2,221,744,516
	13,344,657,325	51,844,039	2,578,500	-	13,399,079,864		4,551,275,053	388,334,074	654,544	-	-	8,458,816,193
<b>Furniture, fixtures and office equipment</b>												
	197,056,785	1,971,955	-	(103,000)	198,925,740	10	96,573,542	10,152,887	-	(36,671)	(36,671)	92,235,982
<b>Vehicles</b>												
	79,826,974	1,125,800	9,314,277	(7,912,025)	82,355,026	20	55,641,308	4,926,861	4,643,719	(4,378,299)	(4,378,299)	21,521,437
<b>Tools and equipment</b>												
	390,938,701	12,471,593	-	-	403,410,294	10	126,506,768	26,891,747	-	-	-	250,011,779
<b>Electrical installations</b>												
	172,365,383	8,049,265	-	-	180,414,648	10	78,772,513	9,867,431	-	-	-	91,774,704
	18,846,379,446	83,117,818	11,892,777	(8,015,025)	18,933,375,016		5,592,658,604	507,744,123	5,298,263	(4,414,970)	(4,414,970)	12,832,088,996
<b>Assets subject to finance lease</b>												
<b>Plant and machinery</b>												
Vehicles	218,023,444	-	(2,578,500)	-	215,444,944	4 - 5	89,880,536	5,716,439	(654,544)	-	-	120,502,113
	10,813,167	-	(9,314,277)	(816,200)	682,690	20	4,995,198	540,757	(4,643,719)	(428,223)	(428,223)	218,677
	228,836,611	-	(11,892,777)	(816,200)	216,127,634		94,875,734	6,257,196	(5,298,263)	(428,223)	(428,223)	120,721,190
	19,075,216,057	83,117,818	-	(8,831,225)	19,149,502,650		5,687,534,338	514,001,319	-	(4,843,193)	(4,843,193)	12,952,810,186

## Notes to the Financial Statements

for the year ended 30 June 2014

### 17.1.1 Disposal of property, plant and equipment

	2014					Mode of disposal	Particulars of buyer
	Cost Rupees	Accumulated depreciation / impairment Rupees	Net book value Rupees	Sale proceeds Rupees	(Loss) / gain on disposal Rupees		
<b><i>Vehicles - owned</i></b>							
Suzuki Mehran	552,531	(323,385)	229,146	220,250	(8,896)	Company policy	Employee
Suzuki Cultus	650,120	(470,961)	179,159	260,000	80,841	Company policy	Employee
Suzuki Bolan Van	473,820	(410,101)	63,719	295,000	231,281	Negotiation	Mr. Muhammad Tariq Chaudhry
Suzuki Cultus	637,270	(458,451)	178,819	535,000	356,181	Negotiation	Mr. Sajjad Saeed
Suzuki APV	1,202,017	(848,962)	353,055	1,050,000	696,945	Negotiation	Mr. Kashif Ghafoor
2 Suzuki APV	2,403,167	(1,691,030)	712,137	2,160,000	1,447,863	Negotiation	Mr. Adnan Fayyaz
Suzuki Mehran	475,189	(322,593)	152,596	375,000	222,404	Negotiation	Mr. Muhammad Hanif
Suzuki APV	1,774,951	(1,024,948)	750,003	1,200,000	449,997	Negotiation	Mr. Zahid Mahmood
Toyota Hilux	2,376,166	(2,135,541)	240,625	460,000	219,375	Negotiation	Mr. Abdul Aziz Shah
	10,545,231	(7,685,972)	2,859,259	6,555,250	3,695,991		
<b><i>Office equipment</i></b>							
4 Laptops	213,500	(94,414)	119,086	46,200	(72,886)	Company policy	Employee
<b><i>Plant &amp; machinery</i></b>							
Gas turbine generator	415,441,636	(283,520,762)	131,920,874	94,046,640	(37,874,234)	Negotiation	Artistic Milliners (Pvt.) Limited
<b>2014</b>	<b>426,200,367</b>	<b>(291,301,148)</b>	<b>134,899,219</b>	<b>100,648,090</b>	<b>(34,251,129)</b>		
2013	8,831,225	(4,843,194)	3,988,031	3,110,329	(877,702)		

Note

	2014 Rupees	2013 Rupees
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### 17.1.2 The depreciation charge for the year has been allocated as follows:

Cost of sales	29	476,081,699	498,380,814
Administrative and general expenses	31	13,354,188	15,620,505
		<b>489,435,887</b>	<b>514,001,319</b>

### 17.2 Capital work in progress

	2014				2013			
	As at 01 July 2013 Rupees	Additions Rupees	Transfers Rupees	As at 30 June 2014 Rupees	As at 01 July 2012 Rupees	Additions Rupees	Transfers Rupees	As at 30 June 2013 Rupees
Building	69,228	11,803,258	(7,438,800)	4,433,686	262,172	2,593,061	(2,786,005)	69,228
Plant and machinery	137,664	42,875,714	(11,508,797)	31,504,581	7,273,378	8,652,192	(15,787,906)	137,664
Electrical installations	-	2,449,980	(2,449,980)	-	-	-	-	-
	<b>206,892</b>	<b>57,128,952</b>	<b>(21,397,577)</b>	<b>35,938,267</b>	<b>7,535,550</b>	<b>11,245,253</b>	<b>(18,573,911)</b>	<b>206,892</b>

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>18 Intangibles</b>			
Cost		13,024,081	13,024,081
Less: accumulated amortization	18.1	(13,024,081)	(11,721,674)
		-	1,302,407
<b>18.1 Accumulated amortization</b>			
As at beginning of the year		(11,721,674)	(9,116,857)
Amortization for the year	31	(1,302,407)	(2,604,817)
As at end of the year		(13,024,081)	(11,721,674)
Rate of amortization		20%	20%

This represents expenditure incurred on implementation of Oracle Financials Suite.

### 19 Long term investments

These represent investments in equity and debt securities. These have been classified as available for sale financial assets. Particulars of investments are as follows:

	Note	2014 Rupees	2013 Rupees
<b><u>Investments in related parties</u></b>			
Unquoted	19.1	1,449,407,671	1,460,660,737
Quoted	19.2	12,030	12,030
		1,449,419,701	1,460,672,767
<b><u>Other investments</u></b>			
Unquoted - secured	19.3	231,864,928	266,074,508
Quoted	19.4	20,057	19,191
		231,884,985	266,093,699
		1,781,304,686	1,726,766,466

#### 19.1 Investment in related party - unquoted

##### Montebello s.r.l.

6,700,000 ordinary shares with a capital of Euro 6,700,000

Proportion of capital held: 100%

Activity: *Textile and Apparel*

Relationship: *Subsidiary*

Cost		2,625,026,049	2,625,026,049
Accumulated impairment			
Opening balance		(1,164,365,312)	(1,125,597,650)
Charged during the year	33	(11,253,066)	(38,767,662)
		(1,175,618,378)	(1,164,365,312)
		1,449,407,671	1,460,660,737

The investment has been measured at fair value of Rs. 216.330 (2013: Rs. 218.009) per share. For basis of valuation, refer to note 40.4.1 to the financial statements.

## Notes to the Financial Statements

for the year ended 30 June 2014

		2014 Rupees	2013 Rupees
<b>19.2</b>	<b>Investment in related party - quoted</b>		
	<b><i>JS Value Fund Limited</i></b>		
	1,000 (2013: 1,000) ordinary shares of Rs. 10 each		
	Market value Rs. 12.03 per share (2013: Rs. 12.03 per share)		
	Cost	10,000	10,000
	Fair value adjustment	2,030	2,030
		<u>12,030</u>	<u>12,030</u>
<b>19.3</b>	<b>Other investments - unquoted - secured</b>		
	<b><i>Agritech Limited</i></b>		
	53,259 Term Finance Certificates of Rs. 5,000 each (2013: 53,259 Term Finance Certificates of Rs. 5,000 each)		
	Cost	266,074,508	266,074,508
	Less: impairment allowance for the year	(34,209,580)	-
		<u>231,864,928</u>	<u>266,074,508</u>
	These represent Term Finance Certificates ("TFCs") of Rs. 5,000 each issued by AGL and carry return at six months KIBOR plus 1.75% and are redeemable in thirteen unequal semi-annual installments starting from 14 July 2013. Since majority of TFCs are pledged as security with providers of debt finance, therefore these have been presented as long term investment. For details of investments pledged as security, refer to note 42 to the financial statements.		
	These are secured by charge over property, plant and equipment of AGL.		
	Impairment represents overdue installments as at the reporting date.		
		2014 Rupees	2013 Rupees
<b>19.4</b>	<b>Other investments - quoted</b>		
	<b><i>Colony Mills Limited</i></b>		
	4,332 (2013: 4,332) ordinary shares of Rs. 10 each		
	Market value Rs. 4.63 per share (2013: Rs. 4.43 per share)		
	Cost	8,664	8,664
	Fair value adjustment	11,393	10,527
		<u>20,057</u>	<u>19,191</u>
<b>20</b>	<b>Long term deposits - unsecured, considered good</b>		
	Utility companies and regulatory authorities	20.1	17,453,047
	Financial institutions	20.2	17,484,247
			6,993,740
			<u>19,253,047</u>
			<u>24,477,987</u>
<b>20.1</b>	These have been deposited with various utility companies and regulatory authorities. These are classified as 'loans and receivables' under IAS 39 'Financial Instruments - Recognition and Measurement' which are required to be carried at amortized cost. However, these, being held for an indefinite period with no fixed maturity date, are carried at cost as its amortized cost is impracticable to determine.		
<b>20.2</b>	These have been deposited with financial institutions.		

## Notes to the Financial Statements

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>21 Stores, spares and loose tools</b>		
Stores, spares and loose tools	<b>132,749,270</b>	130,970,353
Stores, spares and loose tools include items which may result in fixed capital expenditure but are not distinguishable.		
	2014 Rupees	2013 Rupees
<b>22 Stock in trade</b>		
Raw material	<b>551,072,319</b>	1,132,636,448
Less: diminution in value due to net realizable value	<b>(30,718,751)</b>	-
	<b>520,353,568</b>	1,132,636,448
Work in process	<b>794,157,447</b>	706,429,440
Less: diminution in value due to net realizable value	<b>(2,473,768)</b>	(18,279,434)
	<b>791,683,679</b>	688,150,006
Finished goods	<b>272,264,106</b>	401,964,652
Less: diminution in value due to net realizable value	<b>(38,003,345)</b>	(11,608,005)
	<b>234,260,761</b>	390,356,647
	<b>1,546,298,008</b>	2,211,143,101

**22.1** Details of stock in trade pledged as security are referred to in note 42 to the financial statements.

	Note	2014 Rupees	2013 Rupees
<b>23 Trade debts</b>			
<b>Local</b>			
- secured	23.1	<b>38,432,273</b>	57,628,161
- unsecured, considered good		<b>64,739,150</b>	102,914,486
- unsecured, considered doubtful		<b>48,245,462</b>	24,597,754
		<b>151,416,885</b>	185,140,401
<b>Foreign</b>			
- secured	23.1	<b>1,004,784,558</b>	441,204,961
- unsecured, considered good		<b>1,312,662,501</b>	1,548,089,646
- unsecured, considered doubtful		<b>428,723,713</b>	429,659,084
		<b>2,746,170,772</b>	2,418,953,691
		<b>2,897,587,657</b>	2,604,094,092
Less: provision against trade debts	23.2	<b>(476,969,175)</b>	(454,256,837)
		<b>2,420,618,482</b>	2,149,837,255

**23.1** These are secured against letters of credit.

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>23.2 Movement in provision of trade debts</b>			
As at beginning of the year		454,256,837	152,887,383
Provision recognized during the year		22,712,338	309,816,228
Less: provision written off		-	(8,446,774)
As at end of the year		<u>476,969,175</u>	<u>454,256,837</u>
<b>24 Advances, deposits, prepayments and other receivables</b>			
Advances to suppliers - <i>unsecured, considered good</i>		44,202,290	46,321,083
Advances to employees - <i>unsecured, considered good</i>			
- <i>against salaries</i>	24.1	17,128,954	14,561,020
- <i>against expenses</i>		17,683,685	19,467,905
Security deposits		7,542,177	5,967,336
Margin deposits	24.2	34,027,315	34,238,755
Rebate receivable		171,046,838	153,249,493
Sales Tax / FED recoverable		378,430,640	311,723,606
Due from Agritech Limited - <i>secured</i>	24.3	46,741,363	16,600,910
Less: <i>impairment allowance</i>	19.3 & 33	(32,179,608)	-
Letters of credit		14,561,755	16,600,910
Insurance claims		8,449,115	25,964,274
Other receivables - <i>unsecured, considered good</i>		11,860,415	10,105,655
		<u>17,792,710</u>	<u>7,745,175</u>
		<u>722,725,894</u>	<u>645,945,212</u>

**24.1** These represent advances to employees against future salaries and post employment benefits in accordance with the Company policy. Reconciliation of carrying amount of advances to executive employees against salaries is as follows:

	2014 Rupees	2013 Rupees
As at beginning of the year	13,161,100	11,105,655
Additions during the year	3,894,439	2,985,643
Less: receipts / adjustments during the year	(6,289,663)	(930,198)
As at end of the year	<u>10,765,876</u>	<u>13,161,100</u>

**24.2** These represent deposits against bank guarantees.

**24.3** It represents mark-up related to investment in TFC's of AGL as referred to in note 19.3.

## Notes to the Financial Statements

### for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>25 Short term investment</b>			
<b>Quoted</b>			
<i>Agritech Limited:</i>			
20,000,000 (2013: 313,423,184) ordinary shares of Rs. 10.00 each			
Value of investment at Rs. 35.00 per share (2013: Rs. 35.00 per share)			
Proportion of capital held 5.10% (2013: 5.10%)			
<i>Cost:</i>			
As at beginning of the year		407,008,300	6,378,291,871
Disposal during the year		-	(5,971,283,571)
		<b>407,008,300</b>	<b>407,008,300</b>
<i>Fair value adjustment:</i>			
As at beginning of the year		292,991,700	4,591,519,569
Realized during the year	32	-	(4,298,527,869)
		<b>292,991,700</b>	<b>292,991,700</b>
		<b>700,000,000</b>	<b>700,000,000</b>

In previous year, the Company divested major part of its shareholding, i.e. 293,423,184 number of shares out of 313,423,184 number of shares held, under a Share Transfer and Debt Swap Agreement and First Supplemental Agreement ("the Agreement"). Remaining 20,000,000 number of shares are under pledge as at the reporting date which are valued at Rs. 35 per share as against the market value of Rs. 10.29 (2013: Rs. 11.58) per share on the basis of price agreed in the Agreement. Further, the pledge on these shares has been released subsequent to year end and resultantly the Company has received Rs. 394 million and the remaining amount of Rs. 306 million is expected to be received within one year.

	Note	2014 Rupees	2013 Rupees
<b>26 Provision for taxation</b>			
As at beginning of the year		(39,252,658)	6,417,088
Paid / adjusted during the year		94,035,818	91,869,771
Provision for the year		(132,644,196)	(137,539,517)
As at end of the year		<b>(77,861,036)</b>	<b>(39,252,658)</b>
<b>27 Cash and bank balances</b>			
Cash in hand		1,264,385	2,081,561
<i>Cash at banks:</i>			
- current accounts in local currency		18,318,855	118,029,232
- deposit accounts in local currency	27.1	2,702,715	11,689,764
- deposit accounts in foreign currency	27.2	473,854	459,047
		<b>21,495,424</b>	<b>130,178,043</b>
		<b>22,759,809</b>	<b>132,259,604</b>

**27.1** These carry return at 7.00% to 9.25% per annum (2013: 6.00% to 8.50% per annum).

**27.2** These carry return at prevailing LIBOR per annum (2013: prevailing LIBOR per annum).

## Notes to the Financial Statements

	Note	2014 Rupees	2013 Rupees
<b>28 Sales - net</b>			
Local		2,143,612,001	2,038,185,223
Export	28.1 & 28.2	11,140,090,306	11,735,433,336
		<b>13,283,702,307</b>	13,773,618,559
Rebate on exports		101,338,023	39,188,075
Sales tax		(58,017,624)	(32,362,624)
Discounts		(25,175,463)	(41,151,597)
		<b>13,301,847,243</b>	<b>13,739,292,413</b>

**28.1** These include indirect exports, taxable under Section 154 (3b) of the Income Tax Ordinance, 2001, amounting to Rs. 184.442 million (2013: Rs. 537.911 million).

**28.2** These include sales to related parties amounting to Rs. 648.264 million (2013: Rs. 295.894).

	Note	2014 Rupees	2013 Rupees
<b>29 Cost of sales</b>			
Raw and packing materials consumed		8,459,390,671	9,075,457,412
Salaries, wages and benefits	29.1	1,380,134,305	1,414,082,564
Fuel and power		1,375,093,653	1,235,045,634
Store, spares and loose tools consumed		160,981,975	221,043,133
Traveling, conveyance and entertainment		111,301,685	132,398,171
Rent, rates and taxes		35,990,838	16,016,051
Insurance		36,448,248	52,287,620
Repair and maintenance		30,779,093	43,375,915
Processing charges		172,413,181	71,254,467
Depreciation	17.1.2	476,081,699	498,380,814
Printing and stationery		5,327,909	7,367,988
Communications		5,149,064	5,622,675
Miscellaneous		37,861,860	60,752,375
		<b>12,286,954,181</b>	12,833,084,819
<i>Work in process:</i>			
As at beginning of the year		688,150,006	1,126,493,487
As at end of the year		(791,683,679)	(688,150,006)
		<b>(103,533,673)</b>	438,343,481
Cost of goods manufactured		<b>12,183,420,508</b>	13,271,428,300
<i>Finished goods:</i>			
As at beginning of the year		390,356,647	376,974,302
As at end of the year		(234,260,761)	(390,356,647)
		<b>156,095,886</b>	(13,382,345)
Cost of sales		<b>12,339,516,394</b>	<b>13,258,045,955</b>

**29.1** These include charge in respect of employees retirement benefits amounting to Rs. 38.406 million (2013: Rs. 42.851 million).

# Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>30 Selling and distribution expenses</b>			
Salaries and benefits	30.1	114,448,051	100,633,888
Traveling, conveyance and entertainment		40,339,643	43,508,319
Fuel and power		20,722	26,031
Repair and maintenance		690,973	873,601
Rent, rates and taxes		2,552,626	767,809
Insurance		7,608,663	11,195,921
Freight and other expenses		243,995,357	346,071,656
Provision against trade debts	23.2	22,712,338	309,816,228
Printing and stationery		113,454	652,104
Communication		58,591,072	43,490,080
Advertisement and marketing		42,214,894	8,411,424
Legal and professional charges		2,150	30,000
Fee and subscription		344,200	475,659
Commission		85,143,631	191,636,670
Miscellaneous		2,403,577	1,163,737
		<b>621,181,351</b>	<b>1,058,753,127</b>

30.1 These include charge in respect of employees retirement benefits amounting to Rs. 2.204 million (2013: Rs. 2.253 million).

	Note	2014 Rupees	2013 Rupees
<b>31 Administrative and general expenses</b>			
Salaries and benefits	31.1	228,500,383	262,860,732
Traveling, conveyance and entertainment		33,010,522	33,452,147
Fuel and power		24,691,319	29,717,576
Repair and maintenance		20,917,547	17,239,885
Rent, rates and taxes		7,644,336	7,906,128
Insurance		1,263,643	1,137,367
Printing and stationery		3,639,345	5,616,363
Communication		14,950,086	18,260,909
Legal and professional charges	31.2	15,043,735	24,078,149
Depreciation	17.1.2	13,354,188	15,620,505
Amortization	18.1	1,302,407	2,604,817
Fee and subscription		9,764,123	32,505,025
Donations	31.3	10,000	1,115,258
Miscellaneous		20,773,045	4,878,841
		<b>394,864,679</b>	<b>456,993,702</b>

31.1 These include charge in respect of employees retirement benefits amounting to Rs. 9.126 million (2013: Rs. 10.243 million).

## Notes to the Financial Statements

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>31.2</b> These include following in respect of auditors' remuneration		
Annual statutory audit	1,900,000	1,660,000
Report on consolidated financial statements	900,000	800,000
Half yearly review	660,000	575,000
Review report under Code of Corporate Governance	190,000	170,000
Certification and other services	100,000	100,000
Out of pocket expenses	366,000	200,000
	<b>4,116,000</b>	<b>3,505,000</b>

**31.3** This represents donation to different associations and trusts. None of the Directors of the Company have any interest in the donee.

	Note	2014 Rupees	2013 Rupees
<b>32 Other income</b>			
<b><u>Income from financial assets</u></b>			
Return on investment in Term Finance Certificates	32.1	30,140,453	33,373,470
Gain on sale of investment		-	4,298,527,869
Return on bank deposits		2,176,373	2,704,598
		<b>32,316,826</b>	<b>4,334,605,937</b>
<b><u>Income from non-financial assets</u></b>			
Miscellaneous		28,061,581	21,527,746
		<b>60,378,407</b>	<b>4,356,133,683</b>

**32.1** This represents return on investment in Term Finance Certificates of AGL.

### 33 Other expenses

Loss on disposal of property, plant and equipment	17.1.1	34,251,129	(877,702)
Foreign exchange loss		107,629,047	(69,408,650)
Long term deposits written off		-	(5,560,261)
Advances written off		211,440	(3,784,771)
Impairment of long term investment and mark-up	19.1, 19.3 & 24	77,642,254	(38,767,662)
Impairment of fixed assets	33.1	250,000,000	-
		<b>469,733,870</b>	<b>(118,399,046)</b>

**33.1** This represents the impairment loss arising on gas turbine generator which was broken down during the year.

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>34 Finance cost</b>			
<i>Interest / mark-up on:</i>			
Redeemable capital		315,968,732	382,304,700
Long term finances		153,068,064	262,988,125
Liabilities against assets subject to finance lease		3,341,221	5,286,028
Short term borrowings		546,648,486	652,425,562
Borrowings from Agritech Limited		-	19,240,742
Interest on payable to Provident Fund Trust		8,588,691	18,689,139
Interest on payable to Workers' Profit Participation Fund		7,148,460	8,227,689
		<b>1,034,763,654</b>	1,349,161,985
Amortization of transaction costs and deferred notional income	8.7, 8.8 & 9.6	323,738,892	291,297,994
Foreign exchange loss		53,482,914	156,581,182
Bank charges and commission		117,855,633	304,709,043
		<b>1,529,841,093</b>	2,101,750,204

34.1 Interest / mark-up on borrowings from related party have been disclosed in note 39.1.2 to the financial statements.

	Note	2014 Rupees	2013 Rupees
<b>35 Taxation</b>			
Income tax			
- current	35.1	132,644,196	137,539,517
- deferred	35.4	-	-
		<b>132,644,196</b>	137,539,517

35.1 Provision for current tax has been made in accordance with section 154 of the Income Tax Ordinance, 2001 ("the Ordinance").

35.2 The assessments of the Company up to and including tax year 2013 has been completed.

35.3 Various other cases involving point of law are pending for adjudication before the Honorable Lahore High Court.

35.4 Export sales, including proposed claims for indirect exports of the Company are expected to achieve the threshold for the Company, with the option to be taxed under the Final Tax Regime. This trend is expected to continue in foreseeable future. Accordingly, no provision for deferred tax has been made.

35.5 There is no relationship between tax expense and accounting profit since the Company's profits are subject to tax under the Final Tax Regime. Accordingly, no numerical reconciliation has been presented.

	Unit	2014	2013
<b>36 (Loss) / earnings per share -basic and diluted</b>			
<b>36.1 Basic (loss) / earnings per share</b>			
(Loss) / earnings attributable to ordinary shareholders	Rupees	<b>(2,125,555,933)</b>	963,944,545
Weighted average number of ordinary shares outstanding during the year	No. of shares	<b>454,871,870</b>	454,871,870
(Loss) / earnings per share	Rupees	<b>(4.673)</b>	2.119

## Notes to the Financial Statements

for the year ended 30 June 2014

### 36.2 Diluted (loss)/earnings per share

There is no dilutive effect on the basic (loss) / earnings per share as the Company does not have any convertible instruments in issue as at 30 June 2014 and 30 June 2013.

	2014 Rupees	2013 Rupees
<b>37 Cash generated from operations</b>		
(Loss) / profit after tax	(2,125,555,933)	963,944,545
<b><u>Adjustments for non-cash and other items</u></b>		
Interest / mark-up expense	1,015,685,282	1,297,718,387
Interest expense on borrowings from Agritech Limited	-	19,240,742
Loss on disposal of fixed assets	34,251,129	877,702
Gain on sale of investment	-	(4,298,527,869)
Foreign exchange loss - net	161,111,961	225,989,832
Return on investment in Term Finance Certificates	(30,140,453)	(33,373,470)
Long term deposits written off	-	5,560,261
Advances written off	211,440	3,784,771
Taxation	132,644,196	137,539,517
Depreciation	489,435,887	514,001,319
Amortization of transaction costs and deferred notional income	323,738,892	291,297,994
Amortization of intangible assets	1,302,407	2,604,817
Provision for impairment on trade debts	22,712,338	309,816,228
Impairment on fixed assets	250,000,000	-
Provision for impairment on long term investment	77,642,254	38,767,662
	<b>2,478,595,333</b>	<b>(1,484,702,107)</b>
<b>Operating profit / (loss) before changes in working capital</b>	<b>353,039,400</b>	<b>(520,757,562)</b>
<b><u>Changes in working capital</u></b>		
<i>(Increase) / decrease in current assets:</i>		
Stores, spares and loose tools	(1,778,917)	42,349,172
Stock in trade	664,845,093	816,659,329
Trade debts	(397,375,689)	(135,286,474)
Advances, deposits, prepayments and other receivables	(79,031,277)	198,179,237
	<b>186,659,210</b>	<b>921,901,264</b>
<i>Increase / (decrease) in current liabilities:</i>		
Trade and other payables	35,411,059	(265,869,405)
<b>Cash generated from operations</b>	<b>575,109,669</b>	<b>135,274,297</b>
<b>38 Cash and cash equivalents</b>		
Short term borrowings - running finance - secured	(728,108,627)	(1,076,169,156)
Cash and bank balances	22,759,809	132,259,604
	<b>(705,348,818)</b>	<b>(943,909,552)</b>

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### 39 Transactions and balances with related parties

Related parties from the Company's perspective comprise subsidiary, associated undertakings, key management personnel (including chief executive and directors), post employment benefit plan and other related parties. The Company in the normal course of business carries out transactions with various related parties and continues to have a policy whereby all such transactions are carried out on permissible basis with the expectations as approved by the Board of Directors.

Details of transactions and balances with related parties is as follows:

	Note	2014 Rupees	2013 Rupees
<b>39.1 Transactions with related parties</b>			
<b>39.1.1 <u>Subsidiary</u></b>			
<b>Montebello s.r.l.</b>			
Sales	28	648,263,567	295,894,009
<b>39.1.2 <u>Other related parties</u></b>			
<b>JS Bank Limited</b>			
Redeemable capital repaid	8.2	-	84,848,231
Mark-up expense	34	22,419,486	35,417,034
Remuneration of Trustee	8.5 & 8.6	1,500,000	3,000,000
Mark-up paid	12	14,239,774	123,066,116
<b>JS Value Fund Limited</b>			
Redeemable capital - TFC II repayment	8.1	-	(25,415,775)
Mark-up expense	34	2,129,523	3,366,593
<b>Unit Trust of Pakistan</b>			
Redeemable capital - TFC V repayments	8.3	-	(18,019,234)
Mark-up expense	34	3,483,292	4,352,918
<b>JS Large Cap Fund</b>			
Redeemable capital - PPTFC disbursement	8.6	-	83,160,000
Mark-up expense	34	9,147,600	8,122,353
Mark-up paid	8.6	10,399,458	4,536,207
<b>JS Global Capital Limited</b>			
Redeemable capital - PPTFC disbursement	8.5	-	326,456,184
Mark-up expense	34	35,910,180	31,895,072
Mark-up paid	8.5	18,071,366	17,807,514
<b>JS Principal Secure Fund</b>			
Redeemable capital - PPTFC disbursement	8.6	-	33,480,000
Mark-up expense	34	3,682,800	3,270,991
Mark-up paid	8.6	4,186,795	1,826,265
<b>JS Pension Savings Fund</b>			
Redeemable capital - TFC V repayments	8.3	-	(5,405,770)

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>JS Income Fund</b>			
Redeemable capital - TFC II repayments	8.2	-	(9,594,455)
Redeemable capital - TFC V repayments	8.3	-	(27,028,851)
Mark-up expense	34	4,287,188	7,800,266
<b>JS Growth Fund</b>			
Redeemable capital - TFC II repayments	8.2	-	(21,179,813)
Redeemable capital - PPTFC disbursement	8.6	-	64,200,000
Mark-up expense	34	8,836,603	9,076,595
Mark-up paid	8.6	8,028,442	3,501,978
<b>39.1.3 Post employment benefit plans</b>			
Contribution to employees Provident Fund Trust	29, 30 & 31	99,471,266	110,692,736
Interest payable on employees Provident Fund Trust	34	8,588,691	18,689,139
<b>39.1.4 Key management personnel</b>			
The remuneration paid to chief executive, directors, executives and key management personnel in terms of their employment is disclosed in note 43 to the financial statements.			
	Note	2014 Rupees	2013 Rupees
<b>39.2 Balances with related parties</b>			
<b>39.2.1 <u>Subsidiary</u></b>			
<b>Montebello s.r.l.</b>			
Trade debts	23	963,354,964	768,584,853
<b>39.2.2 <u>Other related parties</u></b>			
<b>JS Bank Limited</b>			
Redeemable capital - TFC IV	8.2	65,021,777	65,033,776
Short term borrowing	12	331,667,177	336,026,713
Mark-up payable	14	23,568,167	16,806,556
Cash and bank - <i>current account</i>	27	78,384	7,491,793
<b>JS Value Fund Limited</b>			
Redeemable capital - TFC II	8.1	19,523,024	19,523,025
Redeemable capital - TFC VI	8.4	12,900,000	12,900,000
Mark-up payable	14	6,351,407	4,846,631
<b>Unit Trust of Pakistan</b>			
Redeemable capital - TFC V	8.3	31,980,766	31,980,766
Redeemable capital - TFC VI	8.4	19,265,000	19,265,000
Mark-up payable	14	9,038,460	5,993,891

## Notes to the Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>JS Large Cap Fund</b>			
Redeemable capital - PPTFCs	8.6	83,160,000	83,160,000
Mark-up payable	14	4,058,083	1,829,520
<b>JS Global Capital Limited</b>			
Redeemable capital - PPTFCs	8.5	326,456,184	326,456,184
Mark-up payable	14	15,930,572	7,182,036
Advisory fee payable	13	-	4,000,000
<b>JS Principal Secure Fund</b>			
Redeemable capital - PPTFCs	8.6	33,480,000	33,480,000
Mark-up payable	14	1,633,774	736,560
<b>JS Pension Savings Fund</b>			
Redeemable capital - TFC VI	8.4	3,850,000	3,850,000
<b>JS Income Fund</b>			
Redeemable capital - TFC II	8.1	7,369,942	7,369,942
Redeemable capital - TFC V	8.3	31,980,766	47,971,149
Redeemable capital - TFC VI	8.4	24,135,000	24,135,000
Mark-up payable	14	11,436,116	10,820,439
<b>JS Growth Fund</b>			
Redeemable capital - TFC II	8.1	16,269,187	16,269,187
Redeemable capital - TFC VI	8.4	10,750,000	10,750,000
Redeemable capital - PPTFC disbursement	8.6	64,200,000	64,200,000
Mark-up payable	14	8,425,703	5,451,260
<b>39.2.3 Post employment benefit plans</b>			
Payable to employees' Provident Fund Trust	13	54,950,366	83,897,625
<b>39.2.4 Key management personnel</b>			
Short term employee benefits payable		18,975,476	22,868,033

#### 40 Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Company's Board of Directors ("the Board") has overall responsibility for establishment and oversight of the Company's risk management framework. The Board of Directors has developed a risk policy that sets out fundamentals of risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks.

## Notes to the Financial Statements

for the year ended 30 June 2014

The Company's audit committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Audit committee is assisted in its oversight role by internal audit department. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

### 40.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment in debt securities. To manage credit risk the Company maintains procedures covering the application for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

#### 40.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the end of the reporting period was as follows:

	Note	2014 Rupees	2013 Rupees
<b><u>Available for sale financial assets</u></b>			
Long term investments	19	1,681,304,386	1,726,766,466
Short term investment	25	700,000,000	700,000,000
<b><u>Loans and receivables</u></b>			
Long term deposit - utility companies and regulatory authorities	20	17,453,047	17,484,247
Long term deposit - financial institutions	20	-	5,193,740
Trade debts	23	2,420,618,482	2,149,837,255
Due from Agritech Limited - unsecured, considered good	24	14,561,755	16,600,910
Other receivables - unsecured, considered good	24	17,792,710	7,745,175
Security deposits	24	7,542,177	5,967,336
Margin deposits	24	34,027,315	34,238,755
Insurance claims	24	11,860,415	10,105,655
Cash at banks	27	21,495,424	130,178,043
		<b>2,545,351,325</b>	<b>2,377,351,116</b>
		<b>4,226,656,011</b>	<b>4,104,117,582</b>

#### 40.1.2 Concentration of credit risk

The Company identifies concentrations of credit risk by reference to type of counter party. Maximum exposure to credit risk by type of counterparty is as follows:

	2014 Rupees	2013 Rupees
Customers	2,420,618,482	2,149,837,255
Banking companies and financial institutions	63,064,916	175,577,874
Related party	1,449,419,701	1,460,672,767
Others	293,552,912	318,029,686
	<b>4,226,656,011</b>	<b>4,104,117,582</b>

#### 40.1.3 Credit quality and impairment

Credit quality of financial assets is assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. All counterparties, with the exception of customers, have external credit ratings determined by various credit rating agencies. Credit quality of customers is assessed by reference to historical default rates and present ages.

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### 40.1.3(a) Counterparties with external credit ratings

These include banking companies and financial institutions, which are counterparties to cash deposits, security deposits, margin deposits, insurance claims and issuers of debt securities which are counterparties to investment in debt securities and accrued return thereon. These counterparties have reasonably high credit ratings as determined by various credit rating agencies. Due to long standing business relationships with these counterparties and considering their strong financial standing, management does not expect non-performance by these counterparties on their obligations to the Company. Following are the credit ratings of counterparties with external credit ratings:

Bank	Rating	Rating	Rating	2014	2013
	Short term	Long term	agency	Rupees	Rupees
<b><u>Bank balances</u></b>					
Allied Bank Limited	A1+	AA+	PACRA	25,253	25,288
Albaraka Bank (Pakistan) Limited	A1	A	PACRA	68,518	1,093,207
Askari Bank Limited	A1+	AA	PACRA	39,895	40,478
Barclays Bank Pakistan	P-1	A2	Moody's	1,486	-
Bank Al-Habib Limited	A1+	AA+	PACRA	15,335,035	88,637,193
Bank Alfalah Limited	A1+	AA	PACRA	62,737	519,002
Bank Islami Pakistan Limited	A1	A	PACRA	43,696	478,771
Faysal Bank Limited	A1+	AA	PACRA	3,155,051	17,885,645
Habib Bank Limited	A-1+	AAA	JCR-VIS	124,036	416,303
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,064	2,243
HSBC Bank Middle East Limited	F1+	AA-	Fitch	13,977	22,343
JS Bank Limited	A1	A+	PACRA	116,476	7,491,793
KASB Bank Limited	A3	BBB	PACRA	150,431	595,206
MCB Bank Limited	A1+	AAA	PACRA	204,081	731,491
Meezan Bank Limited	A-1+	AA	JCR-VIS	5,568	5,568
National Bank of Pakistan	A-1+	AAA	JCR-VIS	732,286	18,829
NIB Bank Limited	A1+	AA-	PACRA	487,160	1,064,159
Silk Bank Limited	A-2	A-	JCR-VIS	393,631	1,019,524
Soneri Bank Limited	A1+	AA-	PACRA	15,740	14,825
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	141,357	18,492
Summit Bank Limited	A-3	A-	JCR-VIS	275,802	1,158,441
The Bank of Punjab	A1+	AA-	PACRA	25,097	424,097
United Bank Limited	A-1+	AA+	JCR-VIS	68,732	731,514
Bank of Khyber	A1	A	PACRA	8,315	7,783,631
				<b>21,495,424</b>	<b>130,178,043</b>
<b><u>Margin deposits</u></b>					
Summit Bank Limited	A-3	A-	JCR-VIS	34,027,315	34,027,315
<b><u>Letters of credit</u></b>					
Faysal Bank Limited	A1+	AA	PACRA	193,365	1,489,607
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	4,888,069	-
NIB Bank Limited	A1+	AA-	PACRA	150,224	-
Summit Bank Limited	A-3	A-	JCR-VIS	3,217,457	24,474,667
				<b>8,449,115</b>	<b>25,964,274</b>

#### 40.1.3(b) Counterparties without external credit ratings

These mainly include customers which are counter parties to trade receivables. The Company is exposed to credit risk in respect of trade debts. The Company allows 15 to 180 days credit period to its customers. The analysis of ages of trade debts of the Company as at the reporting date is as follows:

## Notes to the Financial Statements

for the year ended 30 June 2014

	2014		2013	
	Gross carrying amount Rupees	Accumulated impairment Rupees	Gross carrying amount Rupees	Accumulated impairment Rupees
Not yet due	1,101,522,848	-	786,865,175	-
Past due by 0 to 6 months	381,368,636	-	100,440,865	-
Past due by 6 to 12 months	406,556,478	-	280,825,661	-
Past due by more than one year	1,008,139,695	476,969,175	1,435,962,391	454,256,837
	<b>2,897,587,657</b>	<b>476,969,175</b>	<b>2,604,094,092</b>	<b>454,256,837</b>

The analysis of trade debts from Montebello s.r.l., subsidiary of the Company as at the reporting date is as follows:

	Note	2014	2013
		Carrying amount Rupees	Carrying amount Rupees
Not yet due		125,490,495	181,680,481
Past due by 0 to 6 months		322,028,559	28,661,912
Past due by 6 to 12 months		222,655,590	182,750,979
Past due by more than one year		293,180,320	375,491,481
	40.1.3(c)	<b>963,354,964</b>	<b>768,584,853</b>

**40.1.3(c)** The increase in balance is mainly due to the fact that during the year Azgard Nine Limited exported fabric to its customers at comparatively higher margins through its wholly owned subsidiary Montebello s.r.l. to avail the benefit of Montebello brand. The above figure includes Rs. 140.500 million (2013: nil) in this respect.

The Company's five significant customers account for Rs. 1,851.986 million (2013: Rs. 1,212.201 million) of trade debts as at the reporting date, apart from which, exposure to any single customer does not exceed 4% (2013: 2%) of trade debts as at the reporting date. Further, trade receivables amounting to Rs. 1,043.217 million (2013: Rs. 498.833 million) secured through confirmed letters of credit and thus do not carry any significant credit risk.

The Board has formulated a policy to create provision allowance for trade receivables on a time based criteria. Provision allowance on closing trade receivable balances has adequately been created in accordance with the approved policy. Further, based on historical default rates, the Company believes that no impairment allowance other than already provided is necessary in respect of trade receivables not past due or those past due by less than one year, since these relate to customers who have had good payment record with the Company.

The Company at the time of making investments performs detailed due diligence process to mitigate the risk of failure of the counter party.

#### 40.1.4 Collateral held

The Company does not hold any collateral to secure its financial assets with the exception of trade receivables, which are partially secured through confirmed letters of credit and investment in debt securities which are secured by charge over issuer's operating assets.

#### 40.1.5 Credit risk management

As mentioned in note 40.1.3(b) to the financial statements, the Company's financial assets do not carry significant credit risk, with the exception of trade receivables, which are exposed to losses arising from any non-performance by counterparties. In respect of trade debts, the Company manages credit risk by limiting significant exposure to any single customer. Formal policies and procedures of credit management and administration of receivables are established and executed. In monitoring customer credit risk, the ageing profile of total receivables 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, including suspending future shipments and administering dispatches on a prepayment basis or confirmed letters of credit.

# Notes to the Financial Statements

## for the year ended 30 June 2014

### 40.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets, or that such obligations will have to be settled in a manner unfavorable to the Company. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customers.

#### 40.2.1 Exposure to liquidity risk

##### 40.2.1(a) Contractual maturities of financial liabilities, including estimated interest payments

The following are the remaining contractual maturities at the reporting date. The amounts are grossed and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

		2014					
		Carrying amount	Contractual cash flows	One year or less	One to three years	More than three years	
Note		Rupees	Rupees	Rupees	Rupees	Rupees	
<b><u>Non-derivative financial liabilities</u></b>							
	Redeemable capital	8	6,024,844,185	6,769,764,322	1,910,048,561	4,091,613,678	768,102,083
	Long term finances	9	1,791,930,428	1,997,279,109	370,415,341	842,146,352	784,717,416
	Liabilities against assets subject to finance lease	10	29,503,353	33,287,040	11,695,680	21,591,360	-
	Preference shares	11	148,367,255	148,367,255	148,367,255	-	-
	Short term borrowings	12	4,579,605,634	4,876,383,645	4,876,383,645	-	-
	Trade creditors	13	1,701,247,168	1,701,247,168	1,701,247,168	-	-
	Accrued liabilities	13	305,789,065	305,789,065	305,789,065	-	-
	Payable to provident fund trust	13	54,950,366	54,950,366	54,950,366	-	-
	Workers' profit participation fund	13	62,391,516	62,391,516	62,391,516	-	-
	Other payables	13	14,436,690	14,436,690	14,436,690	-	-
	Bills payable	13	345,833,562	345,833,562	345,833,562	-	-
	Mark-up accrued on borrowings	14	2,214,256,456	2,214,256,456	2,214,256,456	-	-
	Dividend payable	15	13,415,572	13,415,572	13,415,572	-	-
			<b>17,286,571,250</b>	<b>18,537,401,766</b>	<b>12,029,230,877</b>	<b>4,955,351,390</b>	<b>1,552,819,499</b>
<b><u>2013</u></b>							
		Carrying amount	Contractual cash flows	One year or less	One to three years	More than three years	
		Rupees	Rupees	Rupees	Rupees	Rupees	
<b><u>Non-derivative financial liabilities</u></b>							
	Redeemable capital	8	6,024,844,185	7,072,708,475	853,664,443	3,204,875,928	3,014,168,104
	Long term finances	9	1,773,447,469	2,076,669,730	207,207,807	774,465,425	1,094,996,498
	Liabilities against assets subject to finance lease	10	32,586,801	39,047,657	27,223,579	11,824,078	-
	Preference shares	11	148,367,255	148,367,255	148,367,255	-	-
	Short term borrowings	12	4,819,186,842	5,083,898,848	5,083,898,848	-	-
	Trade creditors	13	1,615,111,688	1,615,111,688	1,615,111,688	-	-
	Accrued liabilities	13	303,875,359	303,875,359	303,875,359	-	-
	Payable to provident fund trust	13	83,897,625	83,897,625	83,897,625	-	-
	Workers' profit participation fund	13	55,243,056	55,243,056	55,243,056	-	-
	Other payables	13	7,384,370	7,384,370	7,384,370	-	-
	Bills payable	13	385,516,037	385,516,037	385,516,037	-	-
	Mark-up accrued on borrowings	14	1,501,702,254	1,501,702,254	1,501,702,254	-	-
	Dividend payable	15	13,415,572	13,415,572	13,415,572	-	-
			<b>16,764,578,513</b>	<b>18,386,837,926</b>	<b>10,286,507,893</b>	<b>3,991,165,431</b>	<b>4,109,164,602</b>

## Notes to the Financial Statements

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### 40.2.2 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 is facing a temporary liquidity shortfall due to the facts disclosed in note 2.3 as a result of which it was unable to meet its obligations in respect of various debt finances. The details are as follows:

	Principal Rupees	Preference dividend / interest / mark-up Rupees	Total Rupees
<b><u>Nature of liability</u></b>			
Preference shares	148,367,255	-	148,367,255
Dividend on preference shares	-	9,413,535	9,413,535
Long term finances	1,030,321,933	381,169,892	1,411,491,825
Redeemable capital	547,252,308	751,216,069	1,298,468,377
Short term borrowings	646,443,432	716,388,037	1,362,831,469
Bills payables	268,234,489	56,935,958	325,170,447
	<b>2,640,619,417</b>	<b>1,915,123,491</b>	<b>4,555,742,908</b>

As explained in note 2.3, the Company, is in discussions with the providers of debt for a second round of restructuring and debt re-profiling. For the said purpose, the management is considering negotiating with the debt financiers for conversion / upfront settlement at a discount of over due interest / mark-up accrued, and disposal of its low performing assets for settlement of overdue principal of its long term debts.

### 40.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

#### 40.3.1 Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Company. The functional currency of the Company is Pak Rupee. The currencies in which these transactions are primarily denominated are Hong Kong dollars, Euros, US dollars, Renminbi, Pound Sterling and Swiss franc.

##### 40.3.1(a) Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company is as follows:

## Notes to the Financial Statements

for the year ended 30 June 2014

	2014				
	EURO Rupees	USD Rupees	GBP Rupees	RMB Rupees	Total Rupees
<b>Assets</b>					
Investments	1,449,407,671	-	-	-	1,449,407,671
Trade receivables	657,410,215	1,987,546,816	101,213,741	-	2,746,170,772
Cash and bank balances	356,333	117,521	-	-	473,854
	<b>2,107,174,219</b>	<b>1,987,664,337</b>	<b>101,213,741</b>	<b>-</b>	<b>4,196,052,297</b>
<b>Liabilities</b>					
Long term finances	(946,537,228)	-	-	-	(946,537,228)
Short term borrowings	-	(391,225,740)	-	-	(391,225,740)
Mark-up accrued on borrowings	(83,593,872)	(24,184,635)	-	-	(107,778,507)
Trade creditors	(35,585,787)	(21,307,824)	-	(98,585)	(56,992,196)
Bills payable	(2,519,737)	(10,083,098)	-	-	(12,602,835)
	<b>(1,068,236,624)</b>	<b>(446,801,297)</b>	<b>-</b>	<b>(98,585)</b>	<b>(1,515,136,506)</b>
Net balance sheet exposure	<b>1,038,937,595</b>	<b>1,540,863,040</b>	<b>101,213,741</b>	<b>(98,585)</b>	<b>2,680,915,791</b>
<b>2013</b>					
	EURO Rupees	USD Rupees	GBP Rupees	RMB Rupees	Total Rupees
<b>Assets</b>					
Investments	1,460,660,737	-	-	-	1,460,660,737
Trade receivables	1,380,856,891	946,027,770	92,069,029	-	2,418,953,690
Cash and bank balances	341,466	117,581	-	-	459,047
	<b>2,841,859,094</b>	<b>946,145,351</b>	<b>92,069,029</b>	<b>-</b>	<b>3,880,073,474</b>
<b>Liabilities</b>					
Long term finances	(907,054,269)	-	-	-	(907,054,269)
Short term borrowings	-	(466,448,835)	-	-	(466,448,835)
Mark-up accrued on borrowings	(27,000,774)	(3,549,761)	-	-	(30,550,535)
Trade creditors	(38,980,495)	(33,894,448)	-	-	(72,874,943)
Bills payable	(5,695,688)	(124,275,580)	-	-	(129,971,268)
	<b>(978,731,226)</b>	<b>(628,168,624)</b>	<b>-</b>	<b>-</b>	<b>(1,606,899,850)</b>
Net balance sheet exposure	<b>1,863,127,868</b>	<b>317,976,727</b>	<b>92,069,029</b>	<b>-</b>	<b>2,273,173,624</b>

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### 40.3.1(b) Exchange rates applied during the year

The following significant exchange rates have been applied during the year:

	2014			2013		
	Reporting date spot rate		Average rate for the year	Reporting date spot rate		Average rate for the year
	Buying Rupees	Selling Rupees		Buying Rupees	Selling Rupees	
EURO	134.46	134.73	139.59	128.85	129.11	129.87
USD	98.55	98.75	102.89	98.60	98.80	100.00
GBP	167.79	168.13	167.27	150.57	150.87	151.52
CHF	110.59	110.82	113.80	104.49	104.71	105.26
HKD	12.71	12.74	13.27	-	-	-
RMB	16.01	16.05	16.75	-	-	-
AED	-	-	-	26.85	26.90	27.10

#### 40.3.1(c) Sensitivity analysis

A reasonably possible strengthening / (weakening) of 10% in Pak Rupee against the following currencies would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	2014	2013
	Profit Rupees	Profit Rupees
EURO	103,893,760	186,312,787
USD	154,086,304	31,797,673
GBP	10,121,374	9,206,903
RMB	(9,859)	-
	<u>268,091,579</u>	<u>227,317,363</u>

#### 40.3.1(d) Currency risk management

The Company manages its exposure to currency risk through continuous monitoring of expected / forecast committed and non-committed foreign currency payments and receipts. Reports on forecast foreign currency transactions, receipts and payments are prepared on monthly basis, exposure to currency risk is measured and appropriate steps are taken to ensure that such exposure is minimized while optimizing return. This includes matching of foreign currency liabilities / payments to assets / receipts, using source inputs in foreign currency. The Company maintains foreign currency working capital lines in order to finance production of exportable goods. Proceeds from exports are used to repay / settle / rollover the Company's obligations under these working capital lines which substantially reduces exposure to currency risk in respect of such liabilities. Balances in foreign currency are also maintained in current and saving / deposits accounts with banking companies.

#### 40.3.2 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. Sensitivity to interest rate risk arises from mismatch of financial assets and financial liabilities that mature or re-price in a given period.

#### 40.3.2(a) Interest / mark-up bearing financial instruments

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

# Notes to the Financial Statements

for the year ended 30 June 2014

	2014		2013	
	Financial asset Rupees	Financial liability Rupees	Financial asset Rupees	Financial liability Rupees
<b>Non-derivative financial instruments</b>				
Fixed rate instruments	3,176,569	692,023,439	12,148,811	692,023,439
Variable rate instruments	266,106,595	9,009,390,978	266,105,729	9,273,255,150

#### 40.3.2(b) Fair value sensitivity analysis for fixed rate instruments and fair value hedges

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss account. Therefore, a change in profit / mark-up / interest rates at the reporting date would not affect profit and loss account.

#### 40.3.2(c) Cash flow sensitivity analysis for variable rate instruments and cash flow hedges

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit by amounts shown below. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2014 Rupees	2013 Rupees
Increase of 100 basis points	(87,432,844)	(90,071,494)
Decrease of 100 basis points	87,432,844	90,071,494

#### 40.3.2(d) Interest rate risk management

The Company manages interest rate risk by analyzing 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, alternative financing and hedging. Based on these scenarios, the Company calculates impact on profit after taxation and equity of defined interest rate shift, mostly 100 basis points. Cross currency swaps are also arranged to transfer exposure to more stable markets. Fair value interest rate risks are managed by arranging fixed to variable rate swaps.

#### 40.3.3 Price risk

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's exposure to price risk is insignificant.

#### 40.4 Fair values

##### Fair value versus carrying amounts

The carrying values of all financial assets and liabilities reflected in the financial statements approximates their fair values.

##### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Financial Statements

for the year ended 30 June 2014

	Level 1 Rupees	Level 2 Rupees	Level 3 Rupees
<b>30 June 2014</b>			
<i>Available for sale investments</i>			
Long term investments	32,087	-	1,449,407,671
Short term investment - <i>Agritech Limited</i>	-	-	700,000,000
	32,087	-	2,149,407,671
<b>30 June 2013</b>			
<i>Available for sale investments</i>			
Long term investments	31,221	-	1,460,660,737
Short term investment - <i>Agritech Limited</i>	-	-	700,000,000
	31,221	-	2,160,660,737

#### 40.4.1 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

##### Long term investments - level 1

The fair value of available for sale investment is determined by reference to their quoted closing repurchase price at the reporting date.

##### Long term investments - level 3 - Montebello s.r.l.

The Company involved an independent Chartered Accountancy firm to review the financial projections of its subsidiary prepared by the management to determine the fair value of its investment in the subsidiary. In determining the fair values of investments in subsidiary, discount factor adjusted for country and other risks of 9.33% (2013: 11.89%) per annum has been used. If discount factor was 1% higher or lower, the carrying amount of investment would decrease or increase by Rs. 183.655 million or Rs. 235.275 million (2013: Rs. 152.739 million or Rs. 189.702 million) respectively. The management also makes various other assumptions based on historical trends and future plans. There are normal risks associated with these assumptions and may include effects of regulatory and legislative changes, increased competition, technological changes, pricing pressures, changes in labour and material costs and the prevalent general business and economic conditions. However, there are no other sources of estimation uncertainty that may have a significant risk of causing any material adjustment to the carrying amounts of investments.

##### Short term investment - level 3 - Agritech Limited

Investment in AGL is valued at Rs. 35.00 per share on the basis of price agreed in the Agreement.

#### 40.4.2 Significance of fair value accounting estimates to the Company's financial position and performance

The Company uses fair value accounting for its financial instruments in determining its overall financial position and in making decisions about individual financial instruments. This approach reflects the judgment of the Company about the present value of expected future cash flows relating to an instrument. The management believes that fair value information is relevant to many decisions made by users of financial statements as it permits comparison of financial instruments having substantially the same economic characteristics and provides neutral basis for assessing the management's stewardship by indicating effects of its decisions to acquire, sell or hold financial assets and to incur, maintain or discharge financial liabilities.

# Notes to the Financial Statements

for the year ended 30 June 2014

## 41 Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- i. to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- ii. to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

	Unit	2014	2013
Total debt	Rupees	<b>7,846,277,966</b>	7,830,878,455
Total equity including revaluation surplus	Rupees	<b>3,955,392,089</b>	4,732,873,180
Total capital employed	Rupees	<b>11,801,670,055</b>	12,563,751,635
Gearing	Percentage	<b>66.48%</b>	62.33%

Total debt comprises redeemable capital, long term finances and liabilities against assets subject to finance lease.

There were no changes in the Company's approach to capital management during the year. However, defaults / overdue relating to financial obligations of the Company, as referred to in note 40.2.2 to the financial statements, may cause changes in the Company's approach to capital management. The Company is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants including restriction on dividend declaration, imposed by the providers of debt finance. Increase in gearing is mainly due to current year losses and resultant decrease in equity.

42 Restriction on title and assets pledged as security	2014 Rupees	2013 Rupees
<b><u>Mortgages and charges</u></b>		
<b><u>First</u></b>		
Hypothecation of all present and future assets and properties	<b>27,000,000,000</b>	27,000,000,000
Mortgage over land and building	<b>27,000,000,000</b>	27,000,000,000
<b><u>Ranking</u></b>		
Hypothecation of all present and future assets and properties	<b>4,666,666,667</b>	4,666,666,667
Mortgage over land and building	<b>4,666,666,667</b>	4,666,666,667
Hypothecation of all present and future assets and properties	<b>750,000,000</b>	750,000,000
Mortgage over land and building	<b>750,000,000</b>	750,000,000
<b><u>Pledge</u></b>		
Raw material	<b>491,105,041</b>	757,541,963
Finished goods	<b>167,281,791</b>	175,804,000
Investments in equity securities	<b>700,000,000</b>	700,000,000
Investments in debt securities	<b>126,080,519</b>	126,080,519

Pledge of equity securities amounting to Rs. 700.000 million (2013: Rs. 700.000 million) relates to facilities availed by AGL.

## Notes to the Financial Statements

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### 43 Remuneration of chief executive, directors and executives

The aggregate amount charged in the financial statements for the year in respect of remuneration, including all benefits to the Chief Executive, Directors and Executives of the Company is as follows:

	2014			
	Directors			Executives Rupees
	Chief Executive Rupees	Executive Rupees	Non-executive Rupees	
Managerial remuneration	15,999,996	10,662,337	-	138,963,720
Medical	1,599,996	1,066,237	-	13,896,371
Utilities and house rent	6,400,008	5,788,426	-	63,571,679
Post employment benefits	1,359,996	906,305	-	11,273,943
	<b>25,359,996</b>	<b>18,423,305</b>	<b>-</b>	<b>227,705,713</b>
Number of persons as at year end	<b>1</b>	<b>3</b>	<b>3</b>	<b>114</b>
	2013			
	Directors			Executives Rupees
	Chief Executive Rupees	Executive Rupees	Non-executive Rupees	
Managerial remuneration	15,999,996	14,347,273	-	133,763,462
Medical	1,599,996	1,434,723	-	13,139,967
Utilities and house rent	6,400,008	7,681,662	-	66,702,102
Post employment benefits	1,359,996	1,219,518	-	10,767,689
	<b>25,359,996</b>	<b>24,683,176</b>	<b>-</b>	<b>224,373,220</b>
Number of persons as at year end	<b>1</b>	<b>3</b>	<b>3</b>	<b>118</b>

43.1 The chief executive is provided with free use of Company maintained car.

	Unit	2014	2013
<b>44 Plant capacity and actual production</b>			
<b><u>Spinning</u></b>			
Number of rotors installed	No.	2,416	2,416
Plant capacity on the basis of utilization converted into 6.5s count	Kgs	14,877,295	14,877,295
Actual production converted into 6.5s count	Kgs	9,954,610	9,805,510
Number of spindles installed	No.	54,888	54,888
Plant capacity on the basis of utilization converted into 20s count	Kgs	14,668,821	14,668,821
Actual production converted into 20s count	Kgs	3,950,438	7,214,238
<b><u>Weaving</u></b>			
Number of looms installed	No.	230	230
Annual capacity on the basis of utilization converted into 38 picks	Mtrs.	49,407,078	49,407,078
Actual production converted into 38 picks	Mtrs.	31,329,159	26,880,801
<b><u>Garments</u></b>			
Number of stitching machines installed	No.	2,229	2,229
Annual capacity on the basis of utilization	Pcs	12,000,000	12,000,000
Actual production	Pcs	4,090,423	4,293,374

## Notes to the Financial Statements

### for the year ended 30 June 2014

It is difficult to precisely describe production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist, picks etc. It would also vary according to the pattern of production adopted in a particular year.

#### 45 Provident Fund Trust

The following information is based on latest audited financial statements of Provident Fund Trust.

	Unit	2014	2013
Size of fund - total assets	Rupees	<u>161,996,914</u>	<u>175,369,701</u>
Cost of investments made	Rupees	<u>29,952,497</u>	<u>29,952,497</u>
Percentage of investments made	Percentage	<u>18.49%</u>	<u>17.08%</u>
Fair value of investment	Rupees	<u>38,954,623</u>	<u>22,027,864</u>

The breakup of fair value of investments is as follows:

	2014		2013	
	Rupees	Percentage	Rupees	Percentage
Shares in listed companies	<u>1,548,283</u>	<u>3.97%</u>	1,691,784	<u>7.68%</u>
Debt securities	<u>9,534,049</u>	<u>24.47%</u>	9,534,049	<u>43.28%</u>
Mutual funds	<u>27,872,291</u>	<u>71.55%</u>	10,802,031	<u>49.04%</u>
	<u>38,954,623</u>	<u>100.00%</u>	<u>22,027,864</u>	<u>100.00%</u>

The investments of the Provident Fund Trust are not in compliance with the provision of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

#### 46 Number of employees

The average and total number of employees are as follows:

	2014	2013
Average number of employees during the year	<u>7,763</u>	<u>8,719</u>
Total number of employees as at 30 June	<u>6,967</u>	<u>7,914</u>

#### 47 Date of authorization for issue

These financial statements were authorized for issue on 02 October 2014 by the Board of Directors of the Company.

#### 48 General

Figures have been rounded off to the nearest rupee.




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## Consolidated Financial Statements

## Auditors' Report on Consolidated Financial Statements



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
2nd Floor,  
Servis House,  
2-Main Gulberg Jail Road,  
Lahore.

Telephone + 92 (42) 3579 0901-6  
Fax + 92 (42) 3579 0907  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Azgard Nine Limited ("the Holding Company") and its foreign subsidiary company Montebello s.r.l. (here-in-after collectively referred as "the Group") as at 30 June 2014 and the related consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company. The financial statements of the foreign subsidiary company, Montebello s.r.l., were audited by other firm of auditors whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of such other auditor. These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

As stated in note 2.3 and 41.2.2 to the consolidated financial statements, the Group could not make timely repayments of principal and interest / mark-up related to long term debts and as at reporting date certain financial and other covenants imposed by the lenders could not be complied with. International Accounting Standard on Presentation of financial statements (IAS - 1) 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 should classify the liability as current. In these consolidated financial statements the long term debts have been classified as long term according to the individual loan repayment schedules. Had these liabilities been classified as per IAS - 1, current liabilities of the Group would have increased by Rs. 5,904.99 million as at the reporting date;

In our opinion, except for the effects on the consolidated financial statements of the matter referred in above paragraph, the consolidated financial statements present fairly the financial position of the Holding Company and its subsidiary company as at 30 June 2014 and the results of their operations for the year then ended.

We draw attention to the matter that during the year ended 30 June 2014, the Group has incurred loss before tax of Rs. 1,895.72 million and as of that date, its current liabilities exceeded its current assets by Rs. 5,447.65 million, including Rs. 4,555.74 million relating to overdue principal and mark-up thereon, and its accumulated loss stood



KPMG Taseer Hadi & Co.

at Rs. 8,640.33 million. The difference between current liabilities and current assets would be Rs. 11,352.63 million, had the Group classified its long term debts as current for reasons more fully explained in the note 2.3 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. These consolidated financial statements have however been prepared on a going concern basis for the reasons more fully explained in note 2.2 to the consolidated financial statements. Our opinion is not qualified in respect of this matter.

---

KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Kamran Iqbal Yousafi)

Date: 02 October 2014

Lahore

# Consolidated Balance Sheet

as at 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b><i>Share capital and reserves</i></b>			
Authorized share capital	5	15,000,000,000	15,000,000,000
Issued, subscribed and paid-up capital	5	4,548,718,700	4,548,718,700
Reserves	6	3,278,024,432	3,120,841,351
Accumulated losses		(8,640,333,356)	(6,726,946,203)
		(813,590,224)	942,613,848
Surplus on revaluation of fixed assets	7	4,703,687,542	3,470,587,281
		3,890,097,318	4,413,201,129
<b><i>Non-current liabilities</i></b>			
Redeemable capital - secured	8	3,799,216,500	4,563,334,050
Long term finances - secured	9	1,493,304,926	1,646,718,198
Liabilities against assets subject to finance lease - secured	10	20,783,684	-
		5,313,305,110	6,210,052,248
<b><i>Current liabilities</i></b>			
Current portion of non-current liabilities	11	2,068,876,610	832,991,069
Short term borrowings	12	4,726,872,126	5,024,533,069
Trade and other payables	13	2,714,822,531	2,957,118,822
Interest / mark-up accrued on borrowings	14	2,214,256,456	1,501,702,254
Dividend payable	15	13,415,572	13,415,572
		11,738,243,295	10,329,760,786
Contingencies and commitments	16		
		20,941,645,723	20,953,014,163
<b>ASSETS</b>			
<b><i>Non-current assets</i></b>			
Property, plant and equipment	17	13,555,411,222	12,973,010,523
Intangibles	18	844,487,927	693,644,333
Long term investments	19	231,897,015	266,105,729
Long term deposits - unsecured, considered good	20	19,253,047	29,169,416
		14,651,049,211	13,961,930,001
<b><i>Current assets</i></b>			
Stores, spares and loose tools	21	132,749,270	130,970,353
Stock in trade	22	1,652,031,301	2,339,039,126
Trade receivables	23	2,839,179,664	2,757,283,943
Advances, deposits, prepayments and other receivables	24	902,093,786	846,840,143
Short term investment	25	700,000,000	700,000,000
Provision for taxation	26	40,228,593	73,909,984
Cash and bank balances	27	24,313,898	143,040,613
		6,290,596,512	6,991,084,162
		20,941,645,723	20,953,014,163

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.




## Consolidated Profit and Loss Account

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b><u>Continuing operations</u></b>			
Sales - net	28	13,819,987,246	14,439,185,602
Cost of sales	29	(12,579,920,206)	(13,694,668,313)
<b>Gross profit</b>		<b>1,240,067,040</b>	744,517,289
Selling and distribution expenses	30	(645,210,279)	(986,163,524)
Administrative and general expenses	31	(551,975,038)	(597,635,433)
<b>Operating profit / (loss)</b>		<b>42,881,723</b>	(839,281,668)
Other income	32	60,378,407	45,376,213
Other expenses	33	(458,480,804)	(59,964,556)
Finance cost	34	(1,540,495,998)	(2,095,622,067)
<b>Loss before taxation</b>		<b>(1,895,716,672)</b>	(2,949,492,078)
Taxation	35	(132,644,196)	(137,539,517)
<b>Loss after taxation from continuing operations</b>		<b>(2,028,360,868)</b>	(3,087,031,595)
<b><u>Discontinued operations</u></b>			
Gain after taxation from discontinued operations	36	-	741,578,839
<b>Total loss for the year</b>		<b>(2,028,360,868)</b>	(2,345,452,756)
<b>Loss attributable to:</b>			
Ordinary equity holders of the Holding Company		(2,028,360,868)	(2,098,568,865)
Non-controlling interest - discontinued operations		-	(246,883,891)
		<b>(2,028,360,868)</b>	(2,345,452,756)
<b>(Loss) / earning per share -basic and diluted</b>			
- continuing operations	37.1.1	(4.459)	(6.787)
- discontinued operations	37.1.2	-	2.173

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.




## Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>Loss after taxation</b>	<b>(2,028,360,868)</b>	<b>(2,345,452,756)</b>
<b><u>Other comprehensive loss:</u></b>		
<i>Items that are or may be reclassified to consolidated profit and loss account:</i>		
Changes in fair value of available for sale financial assets	866	16,390
Foreign exchange differences on translation of foreign subsidiary	157,182,215	13,626,052
	<b>157,183,081</b>	<b>13,642,442</b>
<b>Total comprehensive loss for the year</b>	<b><u>(1,871,177,787)</u></b>	<b><u>(2,331,810,314)</u></b>
<b>Total comprehensive loss attributable to:</b>		
Ordinary equity holders of the Holding Company	<b>(1,871,177,787)</b>	<b>(2,084,926,423)</b>
Non-controlling interest	-	<b>(246,883,891)</b>
	<b><u>(1,871,177,787)</u></b>	<b><u>(2,331,810,314)</u></b>

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.




# Consolidated Cash Flow Statement

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b><u>Cash flows from operating activities</u></b>			
Cash generated from operations	38	627,333,371	222,428,993
Interest / mark-up paid		(310,327,585)	(1,064,842,220)
Taxes paid		(94,035,818)	(91,869,771)
Long term deposits		4,722,629	4,271,014
<b>Net cash generated from / (used in) operating activities of continuing operations</b>		<b>227,692,597</b>	<b>(930,011,984)</b>
<b>Net cash generated from operating activities of discontinued operations</b>		<b>-</b>	<b>26,561,331</b>
<b>Net cash generated from / (used in) operating activities</b>		<b>227,692,597</b>	<b>(903,450,653)</b>
<b><u>Cash flows from investing activities</u></b>			
Capital expenditure		(111,502,486)	(75,789,208)
Proceeds from disposal of property, plant and equipment		100,648,090	3,110,329
Proceeds from disposal of subsidiary - net		-	3,128,926,166
<b>Net cash (used in) / generated from investing activities of continuing operations</b>		<b>(10,854,396)</b>	<b>3,056,247,287</b>
<b>Net cash generated from investing activities of discontinued operations</b>		<b>-</b>	<b>232,023,953</b>
<b>Net cash (used in) / generated from investing activities</b>		<b>(10,854,396)</b>	<b>3,288,271,240</b>
<b><u>Cash flows from financing activities</u></b>			
Receipts from AGL		-	5,221,794
Redemption of redeemable capital		-	(199,997)
Repayment of long term finances		(21,000,000)	(990,663,587)
Repayment of liabilities against assets subject to finance lease		(3,013,048)	(2,673,704)
Net increase / (decrease) in short term borrowings		36,399,631	(550,294,789)
<b>Net cash generated from / (used in) financing activities of continuing operations</b>		<b>12,386,583</b>	<b>(1,538,610,283)</b>
<b>Net cash used in financing activities of discontinued operations</b>		<b>-</b>	<b>(258,585,284)</b>
<b>Net increase in cash and cash equivalents</b>		<b>229,224,784</b>	<b>587,625,020</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>(933,128,543)</b>	<b>(1,521,060,636)</b>
<b>Unrealized exchange gain on cash and cash equivalents</b>		<b>109,030</b>	<b>307,073</b>
<b>Cash and cash equivalents at end of the year</b>	39	<b>(703,794,729)</b>	<b>(933,128,543)</b>

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.




# Consolidated Statement of Changes in Equity

## for the year ended 30 June 2014

	Capital reserve					Revenue reserve		Total equity Rupees		
	Issued, subscribed and paid-up capital Rupees	Share premium Rupees	Reserve on merger Rupees	Translation reserve Rupees	Preference shares redemption reserve Rupees	Available for sale financial assets Rupees	Accumulated loss Rupees		Total reserves Rupees	Non-controlling interest Rupees
As at 01 July 2012	4,548,718,700	2,358,246,761	105,152,005	(17,446,854)	661,250,830	(3,833)	(7,904,229,485)	(4,797,030,576)	3,917,588,149	3,669,276,273
Total comprehensive income for the year	-	-	-	-	-	-	(2,098,568,865)	(2,098,568,865)	(246,883,891)	(2,345,452,756)
Loss for the year ended 30 June 2013	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for year ended 30 June 2013	-	-	-	13,626,052	-	16,390	-	13,642,442	-	13,642,442
Total comprehensive income / (loss) for the year	-	-	-	13,626,052	-	16,390	(2,098,568,865)	(2,084,926,423)	(246,883,891)	(2,331,810,314)
Effect of disposal of subsidiary	-	-	-	-	-	-	3,150,163,545	3,150,163,545	-	3,150,163,545
Surplus on revaluation of fixed assets of subsidiary	-	-	-	-	-	-	-	-	(3,670,704,258)	(3,670,704,258)
Non-controlling interest	-	-	-	-	-	-	3,150,163,545	3,150,163,545	(3,670,704,258)	(520,540,713)
Transfer of incremental depreciation from surplus on revaluation of fixed assets	-	-	-	-	-	-	125,688,602	125,688,602	-	125,688,602
As at 30 June 2013	4,548,718,700	2,358,246,761	105,152,005	(3,820,802)	661,250,830	12,557	(6,726,946,203)	(3,606,104,852)	-	942,613,848
Total comprehensive income for the year	-	-	-	-	-	-	(2,028,360,868)	(2,028,360,868)	-	(2,028,360,868)
Loss for the year ended 30 June 2014	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year ended 30 June 2014	-	-	-	157,182,215	-	866	-	157,183,081	-	157,183,081
Total comprehensive income / (loss) for the year	-	-	-	157,182,215	-	866	(2,028,360,868)	(1,871,177,787)	-	(1,871,177,787)
Transfer of incremental depreciation from surplus on revaluation of fixed assets	-	-	-	-	-	-	114,973,715	114,973,715	-	114,973,715
As at 30 June 2014	4,548,718,700	2,358,246,761	105,152,005	153,361,413	661,250,830	13,423	(8,640,333,356)	(5,362,308,924)	-	(813,590,224)

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.

Lahore



Chief Executive



Director

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

### 1 Reporting entity

The Group comprises of the following companies:

#### 1.1 Azgard Nine Limited ("ANL") - Holding Company

ANL was incorporated in Pakistan as a Public Limited Company and is listed on Karachi Stock Exchange (Guarantee) Limited. ANL is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacturing of yarn, denim and denim products. The registered office of ANL is situated at Ismail Aiwan-e-Science, off Shahrah-e-Roomi, Lahore. ANL has three production units with Unit I located at 2.5 km off Manga, Raiwind Road, District Kasur, Unit II at Alipur Road, Muzaffargarh and Unit III at 20 km off Ferozpur Road, 6 km Badian Road on Ruhi Nala, Der Khud, Lahore.

#### 1.2 Montebello s.r.l. ("MSRL") - Subsidiary Company

MSRL is incorporated in Italy and is a wholly owned subsidiary of ANL. MSRL is engaged in sale of denim and denim products.

### 2 Basis of preparation

#### 2.1 Statement of compliance

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

#### 2.2 Going concern assumption

During the year, though the Group generated positive cash flows from operations however due to recessionary trends and other economic conditions, the desired profitability remained unachieved. During the year working capital of Rs. 700.000 million from the sale of Agritech Limited ("AGL") remained much awaited. Consequently, the planned utilization of optimal installed operational capacities could not materialize. Purchases of raw materials during optimum time remained unachieved.

Due to above mentioned reasons, the Group has incurred a loss before tax of Rs. 1,895.717 million for the year ended 30 June 2014 and, as of that date its current liabilities exceeded its current assets by Rs. 5,447.647 million, including Rs. 4,555.743 million relating to overdue principal and mark-up thereon, and its accumulated loss stood at Rs. 8,640.333 million. These conditions cast a significant doubt about the Group's ability to continue as a going concern. These consolidated financial statements have however, been prepared on a going concern basis. The assumption that the Group would continue as a going concern is based on the measures as explained in the succeeding paragraph and expectation of future profitability and more positive cash flows from operating activities.

Subsequent to year end, the Group has received Rs. 394 million out of the total Rs. 700.000 million due from sale of AGL. The remaining balance of Rs. 306 million is expected to be received in one year's time. The Group has also entered in second round of financial restructuring through a plan which includes disposal of low profile assets combined with debt restructuring. In this regards, various intended buyers have shown interest for purchase of such assets. Further, lenders have also been contacted for debt restructuring. Subsequent to realization of proceeds from sale of these assets the Group is hopeful that with receipt of remaining working capital and completion of debt restructuring, target of sustainable capacity utilization will be achieved. Management is confident that through these measures the Group would turnaround in to a profitable concern, subject to impact, if any, of uncontrollable external circumstances including power crises and global market conditions.

#### 2.3 Financial liabilities

The Group could not make timely repayments of principal and interest / mark-up related to long term debts as referred to in note 41.2.2. Further, as at the reporting date, the Group could not comply with certain financial and other covenants imposed by the lenders. As per the agreed terms of long term debts the lenders have unconditional right to call the loans if timely repayments are not made or covenants are not complied with. International Accounting Standard on Presentation of financial statements (IAS - 1) 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 should classify the liability as current.

However, the long term debts in the amount of Rs. 5,904.985 million as detailed below have been classified as long term as per the repayment schedules in the consolidated financial statements as the management considers that event of default has not been declared by the lenders and also because of the fact that the Group is in discussion with its lenders for reprofiling of its long term debts:

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

	<b>Principal net of current maturity</b>
	<b>Rupees</b>
<b><u>Redeemable capital</u></b>	
Term Finance Certificates - II	564,486,303
Term Finance Certificates - IV	940,288,196
Term Finance Certificates - V	135,322,995
Privately Placed Term Finance Certificates - VI	2,253,069,000
Privately Placed Term Finance Certificates	299,251,502
Privately Placed Term Finance Certificates	199,100,000
	<hr/> 4,391,517,996
<b><u>Long term finances</u></b>	
Deutsche Investitions - Und MBH (Germany)	946,537,228
Saudi Pak Industrial and Agricultural Company Limited	37,885,850
HSBC Bank (Middle East) Limited	160,143,201
Citi Bank N.A (Pakistan)	368,900,652
	<hr/> 1,513,466,931
	<hr/> <b>5,904,984,927</b> <hr/>

### 2.4 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments at fair value, certain financial instruments at amortized cost and certain items of property, plant and equipment at revalued amounts. In these consolidated financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

### 2.5 Judgments, estimates and assumptions

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

#### 2.5.1 Depreciation method, rates and useful lives of property, plant and equipment

The management of the Group reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Group expects to derive from that item and the maximum period up to which such benefits are expected to be available. The rates of depreciation are specified in note 17.1.

#### 2.5.2 Recoverable amount of assets / cash generating units and impairment

The management of the Group reviews carrying amounts of its assets and cash generating units for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

#### 2.5.3 Fair values based on inputs from other than active market

Fair values of financial instruments, which are based on inputs from other than active market are determined using valuation techniques which incorporate all factors that market participants would consider in setting a price and use inputs that reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

#### 2.5.4 Taxation

The Group takes into account the current income tax law and decisions taken by appellate authorities while estimating its tax liabilities.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

### 2.5.5 Provisions

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 Group would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

### 2.5.6 Revaluation of fixed assets

Revaluation of fixed assets 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.

The frequency of revaluations depends upon the changes in fair values of the items of fixed assets being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Such frequent revaluations are unnecessary for items of fixed assets with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

### 2.5.7 Contingencies

The Group has disclosed its contingent liabilities for the pending litigations and claims against the Group based on its judgment and the advice of the legal advisors for the estimated financial outcome. The actual outcome of these litigations and claims can have an effect on the carrying amounts of the liabilities recognized at the balance sheet date. However, based on the best judgment of the Group and its legal advisors, the likely outcome of these litigations and claims is remote and there is no need to recognize any liability at the balance sheet date.

### 2.5.8 Provision for doubtful debts, advances and other receivables

The Group reviews the recoverability of trade debts, advances and other receivables at each reporting date to assess whether provision should be recorded in consolidated profit and loss account. In particular, judgment by management is required in estimates of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on certain assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

### 2.5.9 Stores, spares loose tools and stock in trade

The Group reviews the stores, spares, loose tools and stock in trade for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores, spares, loose tools and stock in trade with a corresponding affect on the provision.

### 2.6 Functional currency

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

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### 3.1 Basis of consolidation

#### 3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- i) the fair value of the consideration transferred; plus
- ii) the recognized amount of any non-controlling interests in the acquiree; plus
- iii) if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- iv) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in consolidated profit and loss account.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in consolidated profit and loss account.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in consolidated profit and loss account.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and /or future service.

### 3.1.2 Non-controlling interest

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- i) at fair value; or
- ii) at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in consolidated profit and loss account.

### 3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### 3.1.4 Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in consolidated profit and loss account. The Group transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### 3.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## 3.2 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is measured at revalued amount less accumulated impairment losses, plant and machinery and building which are measured at revalued amount less accumulated depreciation and accumulated impairment losses and capital work in progress, which is stated at cost less accumulated impairment losses. 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.

Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the Group and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in consolidated profit and loss account as incurred.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

The Group recognizes depreciation in consolidated profit and loss account by applying reducing balance method over the useful life of each item of property, plant and equipment using rates specified in note 17.1 to the consolidated financial statements. Depreciation on additions to property, plant and equipment 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.

An item of property, plant and equipment is de-recognized when permanently retired from use. Any gain or loss on disposal of property, plant and equipment is recognized in consolidated profit and loss account.

### 3.3 Surplus / deficit arising on revaluation of fixed assets

The surplus on revaluation of fixed assets is accounted for and utilized in accordance with the provisions of Section 235 and S.R.O. 45(1)/2003 issued under the Companies Ordinance, 1984.

### 3.4 Intangibles

An intangible asset is measured initially at cost. The cost of the intangibles acquired comprises its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition. Costs incurred after the asset is in the condition necessary for it to operate in the manner intended by the management are recognized in consolidated profit and loss account. Subsequent to initial recognition, intangibles are measured at cost less accumulated amortization and accumulated impairment losses, if any.

All intangibles are amortized over the period, not exceeding five years, over which the Group expects to obtain economic benefits, on a straight line basis. All intangibles are tested for impairment at each reporting date. The particular measurement methods adopted are disclosed in the individual policy statements associated with each intangible asset.

### 3.5 Research and development expenditure

Research activities are activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditure on research activities is recognized in consolidated profit and loss as and when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized and recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has the sufficient technical, financial and other resources to complete development and to use or sell the asset or its output for which a market exists. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparation of the asset for its intended use. All other development expenditure is recognized in consolidated profit and loss as and when incurred. The intangible asset so recognized is initially measured at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any. Expenditure previously recognized in consolidated profit and loss is not capitalized as part of the cost of intangible asset.

### 3.6 Goodwill acquired in business combination

Goodwill acquired in business combination represents future economic benefits arising from assets that are not capable of being individually identified and separately recognized. Goodwill is initially recognized at cost which is determined as the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

The goodwill is tested for impairment at each balance sheet date. The identified amount of impairment, if any, is allocated to goodwill in accordance with the requirement of IFRS.

### 3.7 Stores, spares and loose tools

These are stated at lower of cost and net realizable value. Cost is determined using the weighted average method. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

### 3.8 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 materials	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Stock in transit	Invoice price plus related expense incurred up to the reporting date

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

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

### 3.9 Employee benefits

#### Short-term employee benefits

The Group 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 consolidated profit and loss account unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. 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.

#### Post-employment benefits

ANL operates an approved defined contributory provident fund for its employees. Equal contributions are made by ANL and employees at 8.50% of basic salary.

### 3.10 Investments

The Group classifies its investments into following classes depending on the purpose for which the investments are made. Investments are classified as follows:

#### 3.10.1 Financial instruments

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. The Group classifies its financial instruments into following classes depending on the purpose for which the financial assets and liabilities are acquired or incurred. The Group determines the classification of its financial assets and liabilities at initial recognition.

##### **3.10.1(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets that are either designated as such on initial recognition or are classified as held for trading. Financial assets are designated as financial assets at fair value through profit or loss if the Group manages such assets and evaluates their performance based on their fair value in accordance with the Group's risk management and investment strategy. Financial assets are classified as held for trading when these are acquired principally for the purpose of selling and repurchasing in the near term, or when these are part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of profit taking, or where these are derivatives, excluding derivatives that are financial guarantee contracts or that are designated and effective hedging instruments. Financial assets in this category are presented as current assets. The Group does not have any financial assets classified as financial asset at fair value through profit or loss as at the balance sheet date.

##### **3.10.1(b) Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments unless these are designated on initial recognition as financial assets at fair value through profit or loss or available for sale financial assets or these meet the definition of loans and receivables. Where, as a result of change in intention or ability to hold financial assets initially classified as held-to-maturity investments to maturity or where due to sales or reclassification of a significant amount of held-to-maturity investments, classification as held-to-maturity investments is no longer appropriate, these are reclassified as available for sale financial assets. Financial assets in this category are presented as non-current assets except for maturities within twelve months from the reporting date where these are presented as current assets. The Group does not have any investment classified as held-to-maturity investment as at the reporting date.

##### **3.10.1(c) Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Assets in this category are presented as current assets except for maturities greater than twelve months from the reporting date, where these are presented as non-current assets. The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

### **3.10.1(d) Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as such on initial recognition or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Assets in this category are presented as non-current assets unless the management intends to dispose of the asset within twelve months from the reporting date. The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

### **3.10.1(e) Financial liabilities at amortized cost**

Non-derivative financial liabilities that are not financial liabilities at fair value through profit or loss are classified as financial liabilities at amortized cost. Financial liabilities in this category are presented as current liabilities except for maturities greater than twelve months from the reporting date where these are presented as non-current liabilities. Carrying values of financial liabilities as at the balance sheet date approximates their amortized cost.

### **3.10.1(f) Derivative financial instruments**

Derivatives are classified as financial assets and liabilities at fair value through profit or loss unless the derivative is a designated and effective hedging instrument or a financial guarantee contract. Derivatives are initially recognized at cost, being fair value on the date the contract is entered into by the Group. Subsequent to initial recognition these are measured at fair value. Gains and losses arising from changes in fair value of derivatives classified as financial assets and liabilities at fair value through profit or loss are recognized in consolidated profit and loss account. Where derivatives are designated hedging instruments the method of recognizing gains and losses arising from changes in fair value depends on the nature of item being hedged. The Group designates derivatives as either a fair value hedge or a cash flow hedge.

#### Fair value hedges

These are hedges of the fair value of recognized assets or liabilities or a firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in consolidated profit and loss account, together with changes in fair value of hedged asset or liability that are attributable to the hedged risk.

#### Cash flow hedges

These are hedges of a particular risk associated with the fair value of recognized asset or liability or a highly probable forecast transaction. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity to the extent hedge is effective. The gain or loss relating to the ineffective portion is recognized in consolidated profit and loss account.

### **3.10.2 De-recognition**

Financial assets are de-recognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Group's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in consolidated profit and loss account.

### **3.10.3 Off-setting**

A financial asset and a financial liability is offset and the net amount reported in the consolidated balance sheet if the Group 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.

### **3.10.4 Regular way purchases and sales of financial assets**

Regular way purchases and sales of financial assets are recognized on trade dates.

### **3.11 Discontinued operation**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon disposal or when the operations meet the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative profit and loss account is re-presented as if the operation has been discontinued from the start of the comparative period.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

## 3.12 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 consolidated profit and loss account over the period of the borrowings on an effective interest basis.

## 3.13 Leases

Leases are classified as finance lease whenever terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The liability to the lessor is included in the consolidated balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and non-current depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to consolidated profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to consolidated profit and loss account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

## 3.14 Provisions and contingencies

Provisions are recognized when the Group 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.

## 3.15 Trade and other payables

### 3.15.1 Financial liabilities

These are classified as 'loans and receivables'. On initial recognition, these are measured at cost, being their fair value at the date of transaction, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in consolidated profit and loss account.

### 3.15.2 Non-financial liabilities

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

## 3.16 Trade and other receivables

### 3.16.1 Financial assets

These are classified as 'loans and receivables'. On initial recognition, these are measured at cost, being their fair value at the date of transaction, less attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in consolidated profit and loss.

### 3.16.2 Non-financial assets

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

## 3.17 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer.

Dividend income is recognized when the Group's right to receive payment is established.

Interest income is recognized as and when accrued on effective interest method.

#### 3.18 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 consolidated profit and loss as incurred.

#### 3.19 Income tax

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

##### Current tax

Current tax is the amount of tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, 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.

##### 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 the 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.

#### 3.20 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group 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 Group that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

#### 3.21 Cash and cash equivalents

Cash and cash equivalents comprise running finances, cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

#### 3.22 Foreign currency transactions and balances

Transactions in foreign currency are translated to the functional currency of the Group 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 consolidated profit and loss.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

The results and financial position of Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a) assets and liabilities for each balance sheet presented are translated at the closing rate at balance sheet date;
- b) income and expenses for each income statement are translated at average exchange rates; and
- c) all resulting exchange differences are recognized as a separate component of equity.

When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the consolidated profit and loss account as part of gain or loss on sale.

### 3.23 Impairment

#### 3.23.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss in respect of a financial asset measured at fair value is determined by reference to that fair value. All impairment losses are recognized in consolidated profit and loss account. 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.

#### 3.23.2 Non-financial assets

The carrying amount of the Group'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 cost 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 assets or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in consolidated profit and loss account. 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 to determine 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.

### 3.24 Dividend distribution

Dividend is recognized as a liability in the period in which it is declared. However, there is a restriction on dividend declaration under Master Restructuring and Inter creditor Agreement.

## 4 New and revised approved accounting standards, interpretations and amendments thereto

### New standards, amendments to approved accounting standards and interpretations which became effective during the year ended 30 June 2014

There were certain new standards and amendments to the approved accounting standards which became effective during the year but are considered not to be relevant or have any significant effect on the Group's operations and are, therefore, not disclosed in these consolidated financial statements.

### New standards, amendments to approved accounting standards and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Group's financial statements.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Group's financial statements.
- Amendment to IAS 36 'Impairment of Assets' Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.
- Amendments to IAS 19 'Employee Benefits' Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Group's financial statements.
- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements.
- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016.
- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place.
- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 'Property, Plant and Equipment' for measurement and disclosure purposes. Therefore, a Group can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the consolidated financial statements of the joint arrangement themselves.
- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

	2014 Rupees	2013 Rupees
<b>5 Share capital</b>		
<b><i>Authorized share capital</i></b>		
Ordinary shares of Rs. 10 each		
900,000,000 (2013: 900,000,000) voting shares	9,000,000,000	9,000,000,000
300,000,000 (2013: 300,000,000) non-voting shares	3,000,000,000	3,000,000,000
	<b>12,000,000,000</b>	12,000,000,000
Preference shares of Rs. 10 each		
300,000,000 (2013: 300,000,000) non-voting shares	3,000,000,000	3,000,000,000
	<b>15,000,000,000</b>	15,000,000,000

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

### Issued, subscribed and paid-up capital

	2014 Rupees	2013 Rupees
Voting ordinary shares of Rs. 10 each		
323,712,733 (2013: 323,712,733) shares fully paid in cash	3,237,127,330	3,237,127,330
62,548,641 (2013: 62,548,641) shares issued as fully paid bonus shares	625,486,410	625,486,410
12,276,073 (2013: 12,276,073) shares issued as consideration for machinery	122,760,730	122,760,730
50,811,992 (2013: 50,811,992) shares issued as consideration on merger	508,119,920	508,119,920
	<b>4,493,494,390</b>	<b>4,493,494,390</b>
Non-voting ordinary shares of Rs. 10 each		
4,753,719 (2013: 4,753,719) shares fully paid in cash	47,537,190	47,537,190
768,712 (2013: 768,712) shares issued as fully paid bonus shares	7,687,120	7,687,120
	<b>55,224,310</b>	<b>55,224,310</b>
	<b>4,548,718,700</b>	<b>4,548,718,700</b>

As at 30 June 2014, Jahangir Siddiqui & Co. Limited, an associated undertaking, holds 112,157,863 (2013: 112,157,863) number of voting ordinary shares of ANL.

6	Reserves	Note	2014 Rupees	2013 Rupees
	Share premium	6.1	2,358,246,761	2,358,246,761
	Merger reserve	6.2	105,152,005	105,152,005
	Translation reserve	6.3	153,361,413	(3,820,802)
	Redemption of preference shares	6.4	661,250,830	661,250,830
	Available for sale financial assets	6.5	13,423	12,557
			<b>3,278,024,432</b>	<b>3,120,841,351</b>

#### 6.1 Share premium

This represents excess of consideration received on issue of ordinary shares over face value of ordinary shares issued.

#### 6.2 Reserve on merger

This represents reserve arising on merger of Nafees Cotton Mills Limited into Legler Nafees Denim Mills (presently Azgard Nine Limited) on 19 December 2002.

#### 6.3 Translation reserve

This represents foreign exchange differences arising on translation of foreign subsidiaries.

#### 6.4 Preference shares redemption reserve

This reserve has been created for redemption of preference shares issued by ANL as required to be created and maintained under the terms of issue and section 85 of the Companies Ordinance, 1984.

#### 6.5 Available for sale financial assets

This represents deficit on revaluation of investments classified as available for sale financial assets.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>7 Surplus on revaluation of fixed assets</b>		
As at beginning of the year	3,470,587,281	6,746,439,428
Surplus on revaluation of fixed assets	1,348,073,976	-
Transferred to accumulated loss on disposal of AGL	-	(3,150,163,545)
Less: incremental depreciation transferred to accumulated loss	(114,973,715)	(125,688,602)
As at end of the year	<u>4,703,687,542</u>	<u>3,470,587,281</u>

ANL's freehold land, buildings on freehold land and plant and machinery were revalued by Maricon Consultants (Private) Limited, an independent valuator not connected with ANL and approved by Pakistan Banks' Association (PBA) in "any amount" category, on 30 June 2014. The basis of revaluation for items of fixed assets were as follows:

### Freehold Land

Property brokers, dealers and estate agents were contacted to ascertain the asking and selling prices for properties of the same nature in the immediate neighborhood and adjoining areas. Neighboring properties which have been recently sold or purchased, were investigated to ascertain a reasonable selling / buying price. Properties that were up for sale were examined for asking price. An average of the above values was then assigned to the property.

### Buildings on freehold land

Construction specifications were noted for each building and structure and new construction rates / GI sheet with iron structure were used to obtain replacement values of buildings, to which a depreciation formula was applied, based upon our estimates of balance life to arrive at the current assessed value.

### Plant and machinery

Plant and machinery have been evaluated / assessed by keeping in view their present physical condition, the remaining useful life / economic life and technological obsolescence. Further, new replacement values for the similar type of plant and machinery were inquired from various dealers / vendors and manufacturers of plant accessories. The new replacement values were depreciated using reducing balance method of depreciation to determine the best estimates of the assessed / depreciated replacement values.

	Note	2014 Rupees	2013 Rupees
<b>8 Redeemable capital - secured</b>			
Term Finance Certificates - II	8.1	651,066,836	651,066,836
Term Finance Certificates - IV	8.2	1,083,768,528	1,083,768,528
Term Finance Certificates - V	8.3	527,682,637	527,682,637
Privately Placed Term Finance Certificates - VI	8.4	3,218,670,000	3,218,670,000
Privately Placed Term Finance Certificates	8.5	326,456,184	326,456,184
Privately Placed Term Finance Certificates	8.6	217,200,000	217,200,000
		<u>6,024,844,185</u>	<u>6,024,844,185</u>
Less: deferred notional income	8.7	(545,601,982)	(856,485,545)
Less: transaction cost	8.8	(46,699,514)	(57,772,282)
		<u>5,432,542,689</u>	<u>5,110,586,358</u>
Less: current maturity presented under current liabilities	11	(1,633,326,189)	(547,252,308)
		<u>3,799,216,500</u>	<u>4,563,334,050</u>

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

- 8.1** These Term Finance Certificates - II ("TFC - II") have been issued by way of private placements and public subscription and are listed on Karachi Stock Exchange (Guarantee) Limited. The total issue comprises of 428,734 certificates of Rs. 5,000 each. The terms and conditions of the issue as per Amendment No. 1 to Master Restructuring and Intercreditor Agreement ("MRA-1") dated 11 April 2012 are as follows:

#### **Principal redemption**

The principal redemption of TFC - II is structured to be in ten un-equal installments. First instalment amounting to Rs. 847.582 million was settled by ANL in the previous year. Remaining nine installments are to be paid semi-annually starting from 20 September 2013 and ending on 20 September 2017.

#### **Return on TFCs**

The issue carries return as per the following applicable mark-up rates, payable semi-annually;

Six months KIBOR plus 1.00% per annum in 2010 - 2011  
 Six months KIBOR plus 1.25% per annum in 2012 - 2015  
 Six months KIBOR plus 1.75% per annum in 2016 onwards

#### **Trustee**

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed with power to enforce ANL's obligations in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and Master Restructuring and Intercreditor Agreement ("MRA").

#### **Security**

For detail of securities refer to note 8.9.

At the reporting date principal amounting to Rs. 37.627 million and interest / mark-up amounting to Rs. 209.639 million was overdue. Refer to note 41.2.2 for details.

- 8.2** These Term Finance Certificates - IV ("TFC - IV") have been issued by way of private placements. The total issue comprises of 500,000 certificates of Rs. 5,000 each. The terms and conditions of the issue as per MRA-1 dated 11 April 2012 are as follows:

#### **Principal redemption**

The principal redemption of TFC - IV is structured to be in ten un-equal installments. First instalment amounting to Rs. 1,414.231 million was settled by ANL in the previous year. Remaining nine installments are to be paid semi-annually starting from 04 December 2013 and ending on 04 December 2017.

#### **Return on TFCs**

The issue carries return as per the following applicable mark-up rates, payable semi-annually;

Six months KIBOR plus 1.00% per annum in 2010 - 2011  
 Six months KIBOR plus 1.25% per annum in 2012 - 2015  
 Six months KIBOR plus 1.75% per annum in 2016 onwards

#### **Trustee**

In order to protect the interests of TFC holders, Pak Brunei Investment ANL remains trustee of the issue, with power to enforce ANL's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA.

#### **Security**

For detail of securities refer to note 8.9.

At the reporting date principle amounting to Rs. 62.085 million and interest / mark-up amounting to Rs. 377.812 million was overdue. Refer to note 41.2.2 for details.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

- 8.3 These Term Finance Certificates - V ("TFC - V") represent restructuring of various short term facilities amounting to Rs. 825.000 million. The total issue comprised of 165,000 TFCs having face value of Rs. 5,000 each. The terms and conditions of the issue as per MRA-1 dated 11 April 2012 are as follows:

**Principal redemption**

The principal redemption of TFC - V is structured to be in nine un-equal installments. First instalment amounting to Rs. 295.937 million was settled by ANL in the previous year. Remaining eight installments are to be paid quarterly starting from 18 February 2014 and ending on 18 November 2015.

**Return on TFCs**

The issue carries return as per the following applicable mark-up rates, payable quarterly:

Twelve months KIBOR plus 1.00% per annum from 18 May 2010 till 18 May 2011  
 Three months KIBOR plus 1.00% per annum from 18 May 2011 till 18 November 2011  
 Three months KIBOR plus 1.25% per annum from 18 November 2011 onwards

**Trustee**

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed, with power to enforce ANL's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA.

**Security**

For detail of securities refer to note 8.9.

At the reporting date principle amounting to Rs. 125.674 million and interest / mark-up amounting to Rs. 149.032 million was overdue. Refer to note 41.2.2 for details.

- 8.4 This represent restructuring of outstanding mark-up amounting to Rs. 3,218.670 million related to long term debts and short term borrowings till 31 March 2012. The total issue comprises of 643,734 TFCs having face value of Rs. 5,000 each. The terms and conditions of the issue are as follows:

**Principal redemption**

The principal redemption of TFCs is structured to be in seven unequal semi annual installments starting from 31 March 2014 and ending on 31 March 2017.

**Call option**

ANL shall be allowed to call the PPTFC's in full or in part. Call option will be exercisable at any time after the expiry of one year from the issue date and upon giving to the TFC holders not less than thirty days notice in writing, to redeem on the following redemption date.

**Return on PPTFCs**

The issue carries nil return (also refer to note 8.7).

**Trustee**

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee under a trust deed, with power to enforce ANL's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the trust deed and MRA-1.

**Security**

The issue is secured by:

- Ranking hypothecation charge in favor of the Trustee over the hypothecated assets in the amount of up to Rs. 4,666.667 million; and

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

- Ranking mortgage charge over the mortgaged properties in the amount of up to Rs. 4,666.667 million

At the reporting date principle amounting to Rs. 321.867 million was overdue. Refer to note 41.2.2 for details.

- 8.5 These represent restructuring of outstanding principal amounting to Rs. 256.020 million and outstanding mark-up along with preference dividend and other charges amounting to Rs. 70.436 million related to preference shares into fresh issue of Privately Placed Term Finance Certificates ("PPTFCs") by way of Settlement Agreement ("the Agreement") between ANL and JS Global Capital Limited dated 22 October 2012 effective from 19 October 2012. The total issue comprised of 12 PPTFCs having face value of Rs. 27.205 million each. The terms and conditions of the issue are as follows:

#### **Principal redemption**

The principal redemption of PPTFCs is structured to be in twelve equal installments amounting to Rs. 27.205 million each. Installments are to be paid semi-annually starting from 19 April 2015 and ending on 19 October 2020.

#### **Return on PPTFCs**

The issue carries a fixed mark-up rate at 11.00% per annum.

#### **Trustee**

In order to protect the interests of PPTFC holders, JS Bank Limited has been appointed as Trustee under a Trust Deed for the issue of PPTFCs entered on 23 October 2012, with power to enforce ANL's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the Trust Deed.

#### **Security**

The issue is secured by personal Guarantee of Sponsor Director.

At the reporting date mark-up / interest amounting to Rs. 8.847 million was overdue. Refer to note 41.2.2 for details.

- 8.6 These represent restructuring of outstanding principal amounting to Rs. 170.132 million and outstanding mark-up along with preference dividend and other charges amounting to Rs. 47.068 million related to preference shares into fresh issue of Privately Placed Term Finance Certificates ("PPTFCs") by way of Settlement Agreement ("the Agreement") between ANL and Lenders dated 22 October 2012 effective from 19 October 2012. The total issue comprised of 21,720 PPTFCs having face value of Rs. 10,000 each. The terms and conditions of the issue are as follows:

#### **Principal redemption**

The principal redemption of PPTFCs is structured to be in twelve equal installments amounting to Rs. 18.100 million each. Installments are to be paid semi-annually starting from 19 April 2015 and ending on 19 October 2020.

#### **Return on PPTFCs**

The issue carries a fixed mark-up rate at 11.00% per annum.

#### **Trustee**

In order to protect the interests of PPTFC holders, JS Bank Limited has been appointed as Trustee under a Trust Deed for the issue of PPTFCs entered on 23 October 2012, with power to enforce ANL's obligations, in case of default and to distribute the proceeds of any such enforcement, in accordance with the terms of the Trust Deed.

#### **Security**

The issue is secured by personal Guarantee of Sponsor Director.

At the reporting date mark-up / interest amounting to Rs. 5.886 million was overdue. Refer to note 41.2.2 for details.

- 8.7 This represents the difference between amortized cost and face value of zero-coupon Privately Placed Term Finance Certificates - VI, with five year maturity (refer to note 8.4). Amortized cost has been determined using effective interest rate of 13.23% per annum being the weighted average rate of return on redeemable capital. Movement is as follows:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>Deferred notional income</b>			
As at beginning of the year		856,485,545	1,124,890,714
Less: amortized during the year		(310,883,563)	(268,405,169)
As at end of the year		<u>545,601,982</u>	<u>856,485,545</u>
<b>8.8 Transaction costs</b>			
As at beginning of the year		57,772,282	74,354,806
Less: amortized during the year	35	(11,072,768)	(16,582,524)
As at end of the year		<u>46,699,514</u>	<u>57,772,282</u>

**8.9 Common security**

All redeemable capital and long term finances except for TFC - VI and PPTFCs have been secured by way of common security which is as follows:

- First charge in favor of National Bank of Pakistan, as Security trustee for the benefit of the Financers, on all present and future assets and properties of ANL.
- Personal Guarantee of Sponsor Director.

	Note	2014 Rupees	2013 Rupees
<b>9 Long term finances - secured</b>			
Deutsche Investitions - Und MBH (Germany)	9.1	946,537,228	907,054,269
Saudi Pak Industrial and Agricultural Company Limited	9.2	43,251,155	43,251,155
HSBC Bank (Middle East) Limited	9.3	234,602,579	255,602,579
Citi Bank N.A (Pakistan)	9.4	567,539,466	567,539,466
		<u>1,791,930,428</u>	<u>1,773,447,469</u>
Less: Transaction costs	9.6	(20,162,005)	(21,944,566)
Less: current maturity presented under current liabilities	11	(278,463,497)	(104,784,705)
		<u>1,493,304,926</u>	<u>1,646,718,198</u>

**9.1** This represents Euros 15 million obtained from Deutsche Investitions - Und MBH (Germany) ("DEG") to finance the setup of new textile and apparel project. As per the rescheduling terms, the loan is payable in twenty one un-equal installments. In the previous year, first installment amounting to Rs. 641.221 million was settled by ANL. Remaining twenty installments are to be paid quarterly starting from 15 July 2015. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable quarterly:

- Six months EURIBOR plus 3.25% per annum till date of sale of AGL
- Three months EURIBOR plus 0.75% per annum from date of sale of AGL to 14 July 2015
- Three months EURIBOR plus 1.00% per annum from 15 July 2015 onwards

In addition to the above, additional interest of 2.00% per annum will be levied if principal and mark-up are not paid on due dates.

At the reporting date principle amounting to Rs. 946.537 million and mark-up / interest amounting to Rs. 83.594 million was overdue. Refer to note 41.2.2 for details.

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

- 9.2 The finance has been obtained from Saudi Pak Industrial and Agricultural ANL Limited for long term working capital requirements. As per MRA - 1 dated 11 April 2012, loan is payable in eighteen un-equal installments. First installment amounting to Rs. 56.749 million was settled by ANL in the previous year. Remaining seventeen installments are to be paid quarterly starting from 13 November 2013 and ending on 13 November 2017. For detail of securities refer to note 8.9.

As per rescheduling agreement the finance carries mark-up as per the following applicable mark-up rates, payable quarterly:

- Six months KIBOR plus 1.00% per annum in 2010 - 2011
- Six months KIBOR plus 1.25% per annum in 2012 - 2015
- Six months KIBOR plus 1.75% per annum in 2016 onwards

In addition to the above, additional interest of 5.00% per annum will be levied if mark-up is not paid on due dates.

At the reporting date principal amounting to Rs. 2.211 million and interest / mark-up amounting to Rs. 18.602 million was overdue. Refer to note 41.2.2 for details.

- 9.3 The finance has been obtained from HSBC Bank Middle East Limited for long term working capital requirements. As per MRA-1 dated 11 April 2012, the loan is payable in nine un-equal installments. First installment amounting to Rs. 7.511 million was settled by ANL in the previous year. Remaining eight installments are to be paid semi-annually starting from 01 May 2013 and ending on 01 November 2016. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable semi-annually:

- Six months KIBOR plus 1.00% per annum in 2010 - 2012
- Six months KIBOR plus 1.25% per annum in 2013 onwards

At the reporting date principal amounting to Rs. 24.82 million and interest amounting to Rs. 61.328 million was overdue. Refer to note 41.2.2 for details.

- 9.4 As part of the overall debt restructuring, the finance was converted from various short term borrowings. As per MRA-1 dated 11 April 2012, the loan is payable in six un-equal installments. Installment are to be paid semi-annually starting from 01 May 2014 and ending on 01 November 2016. For detail of securities refer to note 8.9.

As per rescheduling agreement, the finance carries mark-up as per the following applicable mark-up rates, payable semi-annually:

- Six months KIBOR plus 1.00% per annum in 2010 - 2012

At the reporting date principal amounting to Rs. 56.754 million and interest amounting to Rs. 134.022 million was overdue. Refer to note 41.2.2 for details.

- 9.5 At the reporting date interest / mark-up amounting to Rs. 83.623 million related to long term loans which were fully settled by ANL in the previous year was overdue. Refer to note 41.2.2 for details.

	<i>Note</i>	<u>2014</u> Rupees	<u>2013</u> Rupees
9.6 Transaction costs			
As at beginning of the year		<b>21,944,566</b>	28,254,867
Less: amortized during the year	35	<b>(1,782,561)</b>	(6,310,301)
As at end of the year		<u><b>20,162,005</b></u>	<u>21,944,566</u>

#### 10 Liabilities against assets subject to finance lease - secured

The amounts of future payments for the lease and the period in which the lease payments will become due are as follows:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
Present value of minimum lease payments	10.1 & 10.2	29,503,353	32,586,801
Less: current maturity presented under current liabilities	11	(8,719,669)	(32,586,801)
		<u>20,783,684</u>	<u>-</u>

10.1 This represent plant and machinery acquired under finance lease arrangement and is secured by specific charge on leased assets, joint ownership of leased assets with the lender and lien over documents of title. The lease is priced at six months KIBOR plus 1.50% (2013: three months to twelve months KIBOR plus 2.00% to 4.00%) per annum. Under the terms of agreement, taxes, repairs, replacements and insurance costs in respect of assets subject to finance lease are borne by ANL. ANL also has the option to acquire these assets at the end of the respective lease terms and intends to exercise the option. The lease was rescheduled during the year as a result of which the remaining rentals are payable monthly and the lease liability is completing on 15 June 2017.

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

	Note	2014 Rupees	2013 Rupees
Not later than one year		11,695,680	40,918,058
Later than one year but not later than five years		23,391,360	-
Total future minimum lease payments		35,087,040	40,918,058
Less: finance charge allocated to future periods		(5,583,687)	(8,331,257)
Present value of future minimum lease payments		29,503,353	32,586,801
Not later than one year	11	(8,719,669)	(32,586,801)
Later than one year but not later than five years		20,783,684	-

### 11 Current portion of non-current liabilities

Preference shares of Rs. 10 each (2013: Rs. 10 each)	11.1	148,367,255	148,367,255
Redeemable capital	8	1,633,326,189	547,252,308
Long term finances	9	278,463,497	104,784,705
Liabilities against assets subject to finance lease	10.2	8,719,669	32,586,801
		<u>2,068,876,610</u>	<u>832,991,069</u>

11.1 These represent non-voting, non-participatory, partly convertible and cumulative preference shares which were redeemable up to 24 September 2010.

At the reporting date, entire outstanding amount of preference shares was overdue. Refer to note 41.2.2 for details. ANL intends to settle its remaining liability towards preference shares through conversion into a fresh issue of financial instruments.

### 12 Short term borrowings

#### Secured

These represent short term finances utilized under interest / mark-up arrangements from banking companies and financial institutions.

## Notes to the Consolidated Financial Statements

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	Note	2014 Rupees	2013 Rupees
Running finance	12.1	728,108,627	1,076,169,156
Term loan	12.2	3,661,938,004	3,550,598,236
Morabaha / Salam	12.3	189,559,003	192,419,450
		<u>4,579,605,634</u>	<u>4,819,186,842</u>
Finance against foreign bills	12.4	147,266,492	205,346,227
		<u>4,726,872,126</u>	<u>5,024,533,069</u>

**12.1** These facilities have been obtained from various banking companies and financial institutions for working capital requirements and are secured by Common Security (refer to note 8.9), lien over documents of title of imported goods, lien over firm export orders, trust receipts, demand promissory notes, counter guarantees, pledge of stocks, ranking charge amounting to Rs. 750.000 million on current and future assets of ANL.

Mark-up on these finances is payable quarterly / semi-annually. Local currency finances carry mark-up at rates ranging from one to twelve months KIBOR plus 1.00% per annum (2013: one to six months KIBOR plus 1.00% per annum). Foreign currency finances carry mark up at rates ranging from LIBOR / EURIBOR of matching tenor plus 2.00% to 4.00% per annum (2013: LIBOR of matching tenor plus 2.00% to 6.50% per annum). Mark-up on pre / post shipment finances refinanced by the State Bank of Pakistan is payable at SBP refinance rate of 8.40% per annum plus banks' spread of 1.00% per annum (2013: 8.20% to 10.00% per annum plus banks' spread of 1.00% per annum). Morabaha / LPO carry mark-up at rates ranging from six to twelve months KIBOR plus 1.00% to 3.00% per annum (2013: six to twelve months KIBOR plus 1.00% to 3.00% per annum). Letters of credit / guarantee carry commission at rates ranging from 0.10% to 0.15% per quarter (2013: 0.10% to 0.15% per quarter). Certain finances also carry a penalty interest / mark-up.

At the reporting date interest / mark-up amounting to Rs. 114.593 million, Rs. 473.074 million and Rs. 65.438 million was overdue in respect of running finance, term loan and morabaha / LPO respectively. Further, principal amounting to Rs. 646.443 million was overdue in respect of term loan Refer to note 41.2.2 for details.

**12.2** At the reporting date interest / mark-up amounting to Rs. 63.283 million related to bridge finance which was settled in the previous year was overdue. Refer to note 41.2.2 for details.

**12.3** The aggregate available short term funded facilities amounts to Rs. 6,488 million (2013: Rs. 7,149 million) out of which Rs. 1,913 million (2013: Rs. 2,338 million) remained unavailed as at the reporting date. Limits available for opening of letters of credit amounts to Rs. 521 million (2013: Rs. 521 million) of which the limits remaining unutilized as at the reporting date amounts to Rs. 190 million (2013: Rs. 128 million).

**12.4** These carry interest at rates ranging from 2.50% to 7.00% per annum (2013: 2.50% to 7.00% per annum). The aggregate available facilities amount to Euros 2.500 million (2013: Euros 2.500 million) out of which Euros 1.41 million (2013: Euros 0.910 million) remained unavailed as at reporting date.

**12.5** The borrowings from related party have been disclosed in note 40.2.1 to the consolidated financial statements.

	Note	2014 Rupees	2013 Rupees
<b>13 Trade and other payables</b>			
Trade and other creditors		1,772,204,542	1,865,832,652
Bills payable	13.1	345,833,562	385,516,037
Accrued liabilities		388,478,794	420,242,718
Advances from customers		66,988,270	64,724,636
Payable to Provident Fund Trust	13.2	54,950,366	83,897,625
Workers' Profit Participation Fund	13.3.1	62,391,516	55,243,056
Tax deducted at source		9,538,791	10,492,869
Other payables		14,436,690	71,169,229
		<u>2,714,822,531</u>	<u>2,957,118,822</u>

**13.1** At the reporting date bills amounting to Rs. 268.234 million and interest / mark-up amounting to Rs. 56.936 million were overdue. Refer to note 41.2.2 for details.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

**13.2** Interest on outstanding liability towards Provident Fund Trust is charged at 16.10% (2013: 16.10%) per annum being the rate higher than the average rate of return of Provident Fund Trust.

	Note	2014 Rupees	2013 Rupees
<b>13.3 Workers' Profit Participation Fund</b>			
As at the beginning of the year		55,243,056	47,015,367
Interest for the year	13.3.1	7,148,460	8,227,689
As at the end of the year		<u>62,391,516</u>	<u>55,243,056</u>

**13.3.1** Interest on outstanding liability towards Workers' Profit Participation Fund is charged at bank rate plus 2.50% per annum as required under the Companies Profits (Workers' Participation) Act, 1968.

	Note	2014 Rupees	2013 Rupees
<b>14 Interest / mark-up accrued on borrowings</b>			
Redeemable capital		858,505,670	587,769,949
Long term finances		396,929,304	243,861,238
Short term borrowings		958,821,482	670,071,067
		<u>2,214,256,456</u>	<u>1,501,702,254</u>

**15 Dividend payable**

Unclaimed dividend on ordinary shares		4,002,037	4,002,037
Dividend payable on preference shares	15.1	9,413,535	9,413,535
		<u>13,415,572</u>	<u>13,415,572</u>

**15.1** Preference dividend was due for payment on 21 November 2010, however no payments have been made up to the reporting date. During the year ANL has partially adjusted the preference dividend against the new issue of PPTFCs. The management intends to settle this amount along with the settlement of outstanding overdue preference shares.

**16 Contingencies and commitments**

**16.1 Contingencies**

**16.1.1** Several ex-employees of AGL have filed a petition against ANL demanding terminal benefits including those under the golden hand shake scheme. The claim, valued at Rs. 8.000 million, is pending before the Honorable Lahore High Court and ANL expects a favorable outcome.

**16.1.2** ANL has issued indemnity bonds amounting to Rs. 175.638 million (2013: Rs. 212.437 million) in favour of Collector of Customs and Sales Tax department in lieu of levies under various statutory notifications and these are likely to be released after the fulfillment of the terms of related notifications.

**16.1.3** Counter guarantees given by ANL to its bankers as at the reporting date amount to Rs. 180.352 million (2013: Rs. 167.605 million).

**16.1.4** Bills discounted as at reporting date aggregated to Rs. 1,486.760 million (2013 Rs: 1,937.219 million).

	Note	2014 Rupees	2013 Rupees
<b>16.2 Commitments</b>			
<b>16.2.1</b> Commitments under irrevocable letters of credit for:			
- purchase of stores, spare and loose tools		1,709,166	-
- purchase of raw material		21,714,687	43,889,430
		<u>23,423,853</u>	<u>43,889,430</u>
<b>16.2.2</b> Commitments for capital expenditure		<u>38,505,194</u>	<u>705,600</u>

**17 Property, plant and equipment**

Operating fixed assets	17.1	13,519,472,955	12,972,803,631
Capital work in progress	17.2	35,938,267	206,892
		<u>13,555,411,222</u>	<u>12,973,010,523</u>

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 17.1 Operating fixed assets

	30 June 2014										Net book value as at 30 June 2014 Rupees				
	COST / REVALUED AMOUNT					DEPRECIATION									
	As at 01 July 2013 Rupees	Revaluation surplus Rupees	Additions Rupees	Exchange difference Rupees	Transfers Rupees	Disposals Rupees	As at 30 June 2014 Rupees	Rate %	For the year Rupees	Exchange difference Rupees		Impairment Rupees	Transfers Rupees	Disposals Rupees	As at 30 June 2014 Rupees
<b>Assets owned by the Group</b>															
Freehold land	580,010,025	636,300,000	-	-	-	-	580,010,025	-	-	-	-	-	-	-	580,010,025
- cost	719,274,975	-	-	-	-	-	1,355,754,975	-	-	-	-	-	-	-	1,355,754,975
- revaluation	1,277,735,000	616,030,000	-	-	-	1,913,765,000	-	-	-	-	-	-	-	1,913,765,000	
Buildings on freehold land	2,687,915,149	487,935,137	15,715,907	-	-	2,703,631,056	2.5	52,867,213	-	-	-	-	-	2,073,724,803	
- cost	703,539,295	487,935,137	15,715,907	-	-	1,197,174,342	2.5	13,227,945	-	-	-	-	-	886,440,187	
- revaluation	3,391,454,444	487,935,137	15,715,907	-	-	3,894,705,488	-	66,095,138	-	-	-	-	-	3,945,440,498	
Plant and machinery	9,685,683,246	575,924,753	45,138,317	-	-	9,473,315,315	2-5	269,809,848	-	-	-	-	-	3,756,973,397	
- cost	3,273,396,998	575,924,753	45,138,317	-	-	3,894,460,068	2-5	103,745,770	-	-	-	-	-	1,847,428,860	
- revaluations	13,399,079,864	575,924,753	45,138,317	-	-	13,762,236,866	-	371,155,618	-	-	-	-	-	5,604,402,366	
Furniture, fixtures and office equipment	295,011,970	-	2,226,091	264,889	-	297,502,950	10	9,701,266	-	-	-	-	-	113,922,089	
Vehicles and air transport	85,555,273	-	870,000	139,136	682,600	76,702,866	20	4,441,467	-	-	-	-	-	59,618,508	
Tools and equipment	413,595,242	-	7,316,654	443,442	-	421,355,338	10	26,187,168	-	-	-	-	-	183,702,573	
Electrical and other installations	199,033,473	-	3,528,301	810,465	-	203,372,239	10	10,032,297	-	-	-	-	-	108,777,590	
	18,971,465,246	1,699,889,890	74,796,270	1,658,413	178,618,258	20,899,427,228	-	488,232,975	683,521	250,000,000	92,969,537	(291,101,148)	7,010,963,624	13,486,464,194	
<b>Assets subject to finance lease</b>															
Plant and machinery	235,444,844	-	-	-	-	37,500,376	4-5	4,030,766	-	-	-	-	-	6,500,476	
Vehicles	682,090	-	-	-	-	682,090	20	32,803	-	-	-	-	-	6,500,476	
	236,127,014	-	-	-	-	37,500,376	-	4,063,569	-	-	-	-	-	6,500,476	
	19,157,592,200	1,699,889,890	74,796,270	1,658,413	178,618,258	20,899,427,228	-	492,296,544	683,521	250,000,000	92,969,537	(291,101,148)	7,017,464,100	13,519,473,004	

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	COST / REVALUED AMOUNT				DEPRECIATION				Net book value as at 30 June 2013 Rupees				
	As at 01 July 2012 Rupees	Additions Rupees	Exchange difference Rupees	Disposals Rupees	Transfers Rupees	As at 30 June 2013 Rupees	Rate %	As at 01 July 2012 Rupees		For the year Rupees	Exchange difference Rupees	Adjustments / (disposals) / transfers Rupees	As at 30 June 2013 Rupees
<b>Assets owned by the Group</b>													
<b>Freehold land</b>													
- cost	558,010,025	-	-	-	-	558,010,025	-	-	-	-	-	-	558,010,025
- revaluation	719,724,975	-	-	-	-	719,724,975	-	-	-	-	-	-	719,724,975
	1,277,735,000	-	-	-	-	1,277,735,000	-	-	-	-	-	-	1,277,735,000
<b>Buildings on freehold land</b>													
- cost	2,680,259,983	7,655,166	-	-	-	2,687,915,149	2.5	523,423,391	53,615,649	-	-	577,039,040	2,110,876,109
- revaluation	703,539,295	-	-	-	-	703,539,295	2.5	160,466,028	13,955,474	-	-	174,421,503	529,117,792
	3,383,799,278	7,655,166	-	-	-	3,391,454,444	-	683,889,420	67,571,123	-	-	751,460,543	2,639,993,901
<b>Plant and machinery</b>													
- cost	9,611,260,727	51,844,039	-	-	2,578,500	9,665,683,266	2 - 5	3,151,356,096	276,600,949	-	654,544	3,428,611,589	6,237,071,677
- revaluation	3,733,396,598	-	-	-	-	3,733,396,598	2 - 5	1,399,918,957	111,733,125	-	-	1,511,652,082	2,221,744,516
	13,344,657,325	51,844,039	-	-	2,578,500	13,399,079,864	-	4,551,275,053	388,334,074	-	654,544	4,940,263,671	8,458,816,193
<b>Furniture, fixtures and office equipment</b>													
	202,642,324	1,971,955	500,691	(103,000)	-	205,011,970	10	99,317,415	10,638,835	260,210	(36,671)	110,179,789	94,832,181
<b>Vehicles and rail transport</b>													
	82,763,949	1,125,800	263,272	(7,312,025)	9,314,277	85,555,273	20	56,606,938	5,344,211	98,795	265,420	62,315,364	23,239,809
<b>Tools and equipment</b>													
	400,285,772	12,471,593	837,877	-	-	413,595,242	10	129,515,285	27,562,712	289,356	-	157,367,353	256,227,889
<b>Electrical and other installations</b>													
	189,452,508	8,049,265	1,531,700	-	-	199,033,473	10	85,916,942	11,199,672	679,491	-	97,796,105	101,237,368
	18,881,336,156	83,117,818	3,133,540	(8,015,025)	11,892,777	18,971,465,266	-	5,606,521,053	510,656,627	1,327,862	883,293	6,119,382,825	12,852,082,441
<b>Assets subject to finance lease</b>													
<b>Plant and machinery</b>													
	238,023,444	-	-	-	(2,578,500)	235,444,944	4 - 5	89,880,536	5,716,439	-	(654,544)	94,942,431	120,500,513
<b>Vehicles</b>													
	10,813,107	-	(816,200)	-	(9,314,277)	682,690	20	4,995,198	540,757	-	(5,071,942)	464,013	218,677
	228,836,611	-	(816,200)	-	(11,892,777)	216,127,634	-	94,875,734	6,257,196	-	(5,726,486)	95,406,444	120,721,190
2013	19,110,172,767	83,117,818	3,133,540	(8,831,225)	-	19,187,592,900	-	5,701,396,787	516,907,823	1,327,862	(4,843,193)	6,214,789,269	12,972,803,631

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

### 17.1.1 Disposal of property, plant and equipment

	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees	Sale proceeds Rupees	(Loss) / gain on disposal Rupees	Mode of disposal	Particulars of buyer
<i>Vehicles - owned</i>							
Suzuki Mehran	552,531	(323,385)	229,146	220,250	(8,896)	ANL policy	Employee
Suzuki Cultus	650,120	(470,961)	179,159	260,000	80,841	ANL policy	Employee
Suzuki Bolan Van	473,820	(410,101)	63,719	295,000	231,281	Negotiation	Mr. Muhammad Tariq Chaudhry
Suzuki Cultus	637,270	(458,451)	178,819	535,000	356,181	Negotiation	Mr. Sajjad Saeed
Suzuki APV	1,202,017	(848,962)	353,055	1,050,000	696,945	Negotiation	Mr. Kashif Ghafoor
2 Suzuki APV	2,403,167	(1,691,030)	712,137	2,160,000	1,447,863	Negotiation	Mr. Adnan Fayyaz
Suzuki Mehran	475,189	(322,593)	152,596	375,000	222,404	Negotiation	Mr. Muhammad Hanif
Suzuki APV	1,774,951	(1,024,948)	750,003	1,200,000	449,997	Negotiation	Mr. Zahid Mahmood
Toyota Hilux	2,376,166	(2,135,541)	240,625	460,000	219,375	Negotiation	Mr. Abdul Aziz Shah
	10,545,231	(7,685,972)	2,859,259	6,555,250	3,695,991		
<i>Office equipment</i>							
4 Laptops	213,500	(94,414)	119,086	46,200	(72,886)	ANL policy	Employee
<i>Plant &amp; machinery</i>							
Gas turbine generator	415,441,636	(283,520,762)	131,920,874	94,046,640	(37,874,234)	Negotiation	Artistic Milliners (Private) Limited
2014	426,200,367	(291,301,148)	134,899,219	100,648,090	(34,251,129)		
2013	8,831,225	(4,843,194)	3,988,031	3,110,329	(877,702)		
						Note	
							2014 Rupees
							2013 Rupees

### 17.1.2 The depreciation charge for the year has been allocated as follows:

Cost of sales	29	478,922,356	498,380,814
Administrative and general expenses	31	13,354,188	18,527,058
		492,276,544	516,907,872

### 17.2 Capital work in progress

	2014			
	As at 01 July 2013 Rupee	Additions Rupee	Transfers Rupee	As at 30 June 2014 Rupee
Building	69,228	11,803,258	(7,438,800)	4,433,686
Electric installations	-	2,449,980	(2,449,980)	-
Plant and machinery	137,664	42,875,714	(11,508,797)	31,504,581
	206,892	54,678,972	(21,397,577)	35,938,267
	2013			
	As at 01 July 2012 Rupees	Additions Rupees	Transfers Rupees	As at 30 June 2013 Rupees
Building	262,172	2,593,061	(2,786,005)	69,228
Plant and machinery	7,273,378	8,652,192	(15,787,906)	137,664
	7,535,550	11,245,253	(18,573,911)	206,892

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>18 Intangible assets</b>			
Goodwill acquired in business combination			
Montebello s.r.l.	18.1 & 18.1.2	844,487,927	692,341,926
Software	18.1.2	-	1,302,407
		<b>844,487,927</b>	<b>693,644,333</b>
<b>18.1 Goodwill in Montebello s.r.l.</b>			
Good will		2,337,629,321	1,917,699,426
Accumulated impairment		(1,493,141,394)	(1,225,357,500)
	18.1.1	<b>844,487,927</b>	<b>692,341,926</b>
<b>18.1.1</b>	This represents the excess of cost of acquisition of MSRL over its fair value at the time of acquisition. The Group assessed the recoverable amount at 30 June 2013 for impairment test of goodwill. The recoverable amount was determined using the discounted cash flow method by using a discount factor adjusted for country and other risks of 9.33% (2013: 11.89%) per annum.		
	Increase in goodwill is due to exchange rate fluctuation.		
<b>18.1.2</b>	This represents expenditure incurred on implementation of Oracle Financials Suite.		
		2014 Rupees	2013 Rupees
<b>Cost</b>			
As at beginning of the year		15,283,337	15,097,477
Exchange difference		-	185,860
		<b>15,283,337</b>	<b>15,283,337</b>
<b>Accumulated amortization</b>			
As at beginning of the year		(13,980,930)	(11,190,253)
Amortization for the year		(1,302,407)	(2,604,817)
Exchange difference		-	(185,860)
		<b>(15,283,337)</b>	<b>(13,980,930)</b>
As at end of the year		-	1,302,407
Amortization rate		<b>20.00%</b>	<b>20.00%</b>
<b>19 Long term investments</b>			
These represent investments in equity and debt securities. These have been classified as available for sale financial assets. Particulars of investments are as follows:			
	Note	2014 Rupees	2013 Rupees
Investment in quoted equity securities of related party	19.1	12,030	12,030
Other investment in quoted equity security	19.2	20,057	19,191
		<b>32,087</b>	<b>31,221</b>
Other investment in debt securities - secured	19.3	231,864,928	266,074,508
		<b>231,897,015</b>	<b>266,105,729</b>



## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

**20.1** These have been deposited with various utility companies and regulatory authorities. These are classified as 'loans and receivables' under IAS 39 'Financial Instruments - Recognition and Measurement' which are required to be carried at amortized cost. However, these, being held for an indefinite period with no fixed maturity date, are carried at cost as its amortized cost is impracticable to determine.

**20.2** These have been deposited with financial institutions.

	Note	2014 Rupees	2013 Rupees
<b>21</b>			
<b>Stores, spares and loose tools</b>			
Stores, spares and loose tools	21.1	<u>132,749,270</u>	<u>130,970,353</u>

**21.1** Stores, spares and loose tools include items which may result in fixed capital expenditure but are not distinguishable.

		2014 Rupees	2013 Rupees
<b>22</b>			
<b>Stock in trade</b>			
Raw material		551,072,319	1,132,636,448
Less: diminution in value due to net realizable value		(30,718,751)	-
		520,353,568	1,132,636,448
Work in process		794,157,447	706,429,440
Less: diminution in value due to net realizable value		(2,473,768)	(18,279,434)
		791,683,679	688,150,006
Finished goods		377,997,399	529,860,677
Less: diminution in value due to net realizable value		(38,003,345)	(11,608,005)
		339,994,054	518,252,672
		<u>1,652,031,301</u>	<u>2,339,039,126</u>

**22.1** Details of stock in trade pledged as security are referred to in note 43 to the financial Statements.

	Note	2014 Rupees	2013 Rupees
<b>23</b>			
<b>Trade debts</b>			
<b>Local</b>			
- secured	23.1	38,432,273	57,628,161
- unsecured, considered good		139,673,305	169,936,071
- unsecured, considered doubtful		157,055,200	128,867,635
		335,160,778	356,431,867
<b>Foreign</b>			
- secured	23.1	1,004,784,558	441,204,961
- unsecured, considered good		1,529,269,011	2,088,514,749
- unsecured, considered doubtful		428,723,713	304,495,257
		2,962,777,282	2,834,214,967
		3,297,938,060	3,190,646,834
Less: provision against trade debts	23.2	(458,758,396)	(433,362,891)
		<u>2,839,179,664</u>	<u>2,757,283,943</u>

**23.1** These are secured against letters of credit.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>23.2 Movement in provision of trade debts</b>			
As at beginning of the year		431,506,250	279,046,298
Provision recognized during the year		22,712,338	184,652,401
Less: provision written off		-	(40,699,198)
Exchange difference		4,539,808	10,363,390
As at end of the year		<u>458,758,396</u>	<u>433,362,891</u>
<b>24 Advances, deposits, prepayments and other receivables</b>			
Due from Agritech Limited - <i>secured</i>	24.3	46,741,363	16,600,910
Less: <i>impairment allowance</i>		(32,179,608)	-
		14,561,755	16,600,910
Advances to suppliers - <i>unsecured, considered good</i>		223,535,357	241,451,652
Advances to employees - <i>unsecured, considered good</i>			
- <i>against salaries</i>	24.1	17,128,954	14,561,020
- <i>against expenses</i>		17,683,685	19,467,905
Security deposits		7,542,177	5,967,336
Margin deposits	24.2	34,027,315	34,238,755
Prepayments		34,825	169,695
Rebate receivable		171,046,838	153,249,493
Sales tax / FED recoverable		378,430,640	317,318,273
Letters of credit		8,449,115	25,964,274
Insurance claims		11,860,415	10,105,655
Other receivables - <i>unsecured, considered good</i>		17,792,710	7,745,175
		<u>902,093,786</u>	<u>846,840,143</u>
<b>24.1</b> These represent advances to employees against future salaries and post employment benefits in accordance with ANL policy. Reconciliation of carrying amount of advances to executives against salaries is as follows:			
		2014 Rupees	2013 Rupees
As at beginning of the year		13,161,100	11,105,655
Additions during the year		3,894,439	2,985,643
Less: receipts / adjustments during the year		(6,289,663)	(930,198)
As at end of the year		<u>10,765,876</u>	<u>13,161,100</u>
<b>24.2</b> These represent deposits against bank guarantees.			
<b>24.3</b> It represents mark-up related to investment in TFC's of AGL as referred to in note 19.3.			
		2014 Rupees	2013 Rupees
<b>25 Short term investment</b>			
<b>Agritech Limited</b>			
20,000,00 ordinary shares of Rs. 10 each			
Value of investment Rs. 35.00 per share			
Proportion of share capital held 5.10% (2013: 5.10%)			
Cost	25.1	<u>700,000,000</u>	<u>700,000,000</u>

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

**25.1** In previous year, ANL divested major part of its shareholding, i.e. 293,423,184 number of shares out of 313,423,184 number of shares held, under a Share Transfer and Debt Swap Agreement and First Supplemental Agreement ("the Agreement"). Remaining 20,000,000 number of shares are under pledge as at the reporting date which are valued at Rs. 35.00 per share as against the market value of Rs. 10.29 (2013: Rs. 11.58) per share on the basis of price agreed in the Agreement. Further, the pledge on these shares has been released subsequent to year end and resultantly ANL has received Rs. 394.000 million and the remaining amount of Rs. 306.000 million is expected to be received within one year.

	Note	2014 Rupees	2013 Rupees
<b>26 Provision for taxation</b>			
As at beginning of the year		73,909,984	110,270,269
Paid during the year		94,035,818	91,869,771
Provision for the year		(132,644,196)	(137,539,517)
Exchange difference		4,926,987	9,309,461
As at end of the year		<u>40,228,593</u>	<u>73,909,984</u>
<b>27 Cash and bank balances</b>			
Cash in hand		1,331,615	2,223,554
Cash at banks			
- current accounts in local currency		18,318,855	118,029,232
- current accounts in foreign currency		1,486,859	-
- deposit accounts in local currency	27.1	2,702,715	11,689,764
- deposit accounts in foreign currency	27.2	473,854	11,098,063
		<u>22,982,283</u>	<u>140,817,059</u>
		<u>24,313,898</u>	<u>143,040,613</u>

**27.1** These carry return at 6.00% to 8.50% per annum (2013: 5.00% to 13.34% per annum).

**27.2** These carry return at prevailing LIBOR per annum (2013: prevailing LIBOR per annum).

	Note	2014 Rupees	2013 Rupees
<b>28 Sales - net</b>			
Local		2,143,612,001	2,038,185,223
Export	28.1	11,663,546,455	12,439,501,654
		<u>13,807,158,456</u>	<u>14,477,686,877</u>
Rebate on exports		101,338,023	39,188,075
Sales tax		(58,017,624)	(32,362,624)
Discount		(30,491,609)	(45,326,726)
		<u>13,819,987,246</u>	<u>14,439,185,602</u>

**28.1** These include indirect exports, taxable under Section 154 (3b) of the Income Tax Ordinance, 2001, amounting to Rs. 184.442 million (2013: Rs. 537.911 million).

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>29 Cost of sales</b>			
Raw and packing materials consumed		8,459,390,671	9,075,457,412
Salaries, wages and benefits	29.1	1,380,134,305	1,414,082,564
Fuel and power		1,375,093,653	1,235,045,634
Store and spares consumed		163,070,660	222,806,919
Traveling, conveyance and entertainment		111,301,685	132,398,171
Rent, rates and taxes		35,990,838	16,016,051
Insurance		37,437,104	53,119,066
Repair and maintenance		30,779,093	43,375,915
Processing charges		172,413,181	71,254,467
Depreciation	17.1.2	478,922,356	498,380,814
Printing & stationery		5,327,909	7,367,988
Communications		5,149,064	5,622,675
Others		37,861,860	60,752,375
		<b>12,292,872,379</b>	<b>12,835,680,051</b>
<i>Work in process</i>			
As at beginning of the year		688,150,006	1,126,493,487
As at end of the year		(791,683,679)	(688,150,006)
		<b>(103,533,673)</b>	<b>438,343,481</b>
Cost of goods manufactured		<b>12,189,338,706</b>	<b>13,274,023,532</b>
<i>Finished goods</i>			
As at beginning of the year		518,252,672	481,079,302
Purchased during the year		212,322,882	457,818,151
As at end of the year		(339,994,054)	(518,252,672)
		<b>390,581,500</b>	<b>420,644,781</b>
		<b>12,579,920,206</b>	<b>13,694,668,313</b>

29.1 These include charge in respect of ANL employees retirement benefits amounting to Rs. 38.406 million (2013: Rs. 42.851 million).

	Note	2014 Rupees	2013 Rupees
<b>30 Selling and distribution expenses</b>			
Salaries and benefits	30.1	114,448,051	100,633,888
Traveling, conveyance and entertainment		40,339,643	43,508,319
Fuel and power		20,722	26,031
Repair and maintenance		690,973	873,601
Rent, rates and taxes		2,552,626	767,809
Insurance		7,608,663	11,195,921
Freight and other expenses		258,655,238	358,452,459
Provision against trade debts	23.2	20,855,697	184,652,401
Printing and stationery		113,454	652,104
Communication		58,591,072	43,490,080
Advertisement and marketing		53,440,582	17,909,582
Legal and professional charges		2,150	30,000
Fee and subscription		344,200	475,659
Commission		85,143,631	222,331,933
Miscellaneous		2,403,577	1,163,737
		<b>645,210,279</b>	<b>986,163,524</b>

30.1 These include charge in respect of ANL employees retirement benefits amounting to Rs. 2.204 million (2013: Rs. 2.253 million).

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>31 Administrative and general expenses</b>			
Salaries and benefits	31.1	322,498,195	345,242,942
Traveling, conveyance and entertainment		39,583,117	39,974,275
Fuel and power		24,691,319	29,717,576
Repair and maintenance		23,848,797	19,825,728
Rent, rates and taxes		17,587,890	16,967,157
Insurance		1,263,643	1,137,367
Printing and stationery		4,077,518	6,007,050
Communication		18,464,125	21,083,718
Legal and professional charges	31.2	30,856,909	35,449,500
Depreciation	17.1.2	13,354,188	18,527,058
Amortization	18.1.2	1,302,407	2,604,817
Fee and subscription		9,764,123	32,505,025
Donations	31.3	10,000	1,115,258
Others		44,672,807	27,477,962
		<b>551,975,038</b>	<b>597,635,433</b>

**31.1** These include charge in respect of ANL employees retirement benefits amounting to Rs. 9.126 million (2013: Rs. 10.243 million).

**31.2** These include following in respect of auditors' remuneration:

	2014			2013 Rupees
	Holding Company Rupees	Subsidiary Company Rupees	Total Rupees	
Annual statutory audit	1,900,000	2,722,005	4,622,005	4,156,000
Report on consolidated financial statements	900,000	-	900,000	800,000
Half yearly review	660,000	-	660,000	575,000
Review report under Code of Corporate Governance	190,000	-	190,000	170,000
Certification and other services	100,000	-	100,000	100,000
Out of pocket expenses	366,000	-	366,000	200,000
	<b>4,116,000</b>	<b>2,722,005</b>	<b>6,838,005</b>	<b>6,001,000</b>

**31.3** This represents donation to different associations and trusts. None of the Directors have any interest in the donee.

	Note	2014 Rupees	2013 Rupees
<b>32 Other income</b>			
<b><u>Income from financial assets</u></b>			
Return on investment in term finance certificates	32.1	30,140,453	21,143,869
Return on bank deposits		2,176,373	2,704,598
		<b>32,316,826</b>	<b>23,848,467</b>
<b><u>Income from non-financial assets</u></b>			
Miscellaneous		28,061,581	21,527,746
		<b>60,378,407</b>	<b>45,376,213</b>

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

32.1 This represents return on investment in Term Finance Certificates of AGL.

	Note	2014 Rupees	2013 Rupees
<b>33 Other expenses</b>			
Loss on disposal of property, plant and equipment	17.1.1	34,251,129	877,702
Foreign exchange loss		107,629,047	49,741,822
Long term deposits written off		-	5,560,261
Advances written off		211,440	3,784,771
Impairment on long term investment and mark-up	19.3 & 24	66,389,188	-
Impairment of fixed assets	33.1	250,000,000	-
		<u>458,480,804</u>	<u>59,964,556</u>

33.1 This represents the impairment loss arising on gas turbine generator which was broken down during the year.

	Note	2014 Rupees	2013 Rupees
<b>34 Finance cost</b>			
<i>Interest / mark-up on:</i>			
Redeemable capital		315,968,732	382,304,700
Long term finances		153,068,064	262,988,125
Liabilities against assets subject to finance lease		3,341,221	5,286,028
Short term borrowings		553,845,188	662,086,203
Interest on payable to Provident Fund Trust		8,588,691	18,689,139
Interest on payable to Workers' Profit Participation Fund		7,148,460	8,227,689
		<u>1,041,960,356</u>	<u>1,339,581,884</u>
Amortization of transaction costs and deferred notional income	8.7, 8.8 & 9.6	323,738,892	291,297,994
Foreign exchange loss		53,482,914	156,581,182
Bank charges and commission		121,313,836	308,161,007
		<u>1,540,495,998</u>	<u>2,095,622,067</u>

34.1 Interest / mark-up on borrowings from related party have been disclosed in note 40.1.1 to the consolidated financial statements.

	Note	2014 Rupees	2013 Rupees
<b>35 Taxation</b>			
<i>Income tax</i>			
- current	35.1	132,644,196	137,539,517
- deferred	35.5	-	-
		<u>132,644,196</u>	<u>137,539,517</u>

35.1 Provision for current tax of ANL has been made in accordance with section 154 of the Income Tax Ordinance, 2001 ("the Ordinance").

35.2 No provision for income tax has been made by MSRL as it has unused losses as at the reporting date.

35.3 The assessments of ANL up to and including tax year 2013 has been completed.

35.4 Various other cases involving point of law are pending for adjudication before the Honorable Lahore High Court.

35.5 Export sales, including proposed claims for indirect exports of ANL are expected to achieve the threshold for ANL, with the option to be taxed under the Final Tax Regime. This trend is expected to continue in foreseeable future. Accordingly, no provision for deferred tax has been made.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

**35.6** There is no relationship between tax expense and accounting profit since the profits of ANL are subject to tax under the Final Tax Regime. Accordingly, no numerical reconciliation has been presented.

**36 Discontinued operations - subsidiary**

In previous year, the Group divested major part of its shareholding in Agritech Limited resulting in loss of control under a Share Transfer and Debt Swap Agreement and First Supplemental Agreement. Resultantly, the results of Agritech Limited were presented as discontinued operations in previous year till the date of divestment.

	<i>Unit</i>	<b>2014</b>	2013
<b>37 (Loss) / earning per share -basic and diluted</b>			
<b>37.1 Basic (loss) / earnings per share</b>			
<b>37.1.1 From continuing operations</b>			
Loss attributable to ordinary shareholders	<i>Rupees</i>	<u><b>(2,028,360,868)</b></u>	<u>(3,087,031,595)</u>
Weighted average number of ordinary shares outstanding during the year	<i>No. of shares</i>	<u><b>454,871,870</b></u>	<u>454,871,870</u>
Loss per share	<i>Rupees</i>	<u><b>(4.459)</b></u>	<u>(6.787)</u>
<b>37.1.2 From discontinued operations</b>			
Earnings attributable to ordinary shareholders	<i>Rupees</i>	<u>-</u>	<u>988,462,730</u>
Weighted average number of ordinary shares outstanding during the year	<i>No. of shares</i>	<u>-</u>	<u>454,871,870</u>
Earning / (loss) per share	<i>Rupees</i>	<u>-</u>	<u>2.173</u>
<b>37.2 Diluted (loss) / earnings per share</b>			

There is no dilutive effect on the basic (loss) / earnings per share as the Group does not have any convertible instruments in issue as at 30 June 2014 and 30 June 2013.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>38 Cash generated from continuing operations</b>			
Loss after taxation from continuing operations		(2,028,360,868)	(3,087,031,595)
Gain on disposal of discontinued operations		-	2,001,867,817
		<u>(2,028,360,868)</u>	<u>(1,085,163,778)</u>
<b>Adjustments for non-cash and other items:</b>			
Interest / mark-up expense		1,022,881,984	1,307,379,028
Loss on disposal of fixed assets		34,251,129	877,702
Foreign exchange loss		161,111,961	206,323,004
Gain on disposal of discontinued operations		-	(2,001,867,817)
Return on investment in term finance certificates		(30,140,453)	(21,143,869)
Long term deposits written off		-	5,560,261
Advances written off		211,440	3,784,771
Taxation		132,644,196	137,539,517
Depreciation		492,276,544	516,907,872
Amortization of transaction costs and deferred notional income		323,738,892	291,297,994
Amortization of intangible assets		1,302,407	2,604,817
Provision for impairment of trade debts		22,712,338	184,652,401
Impairment on fixed assets		250,000,000	-
Provision for impairment of investment		66,389,188	-
		<u>2,477,379,626</u>	<u>633,915,681</u>
<b>Operating profit / (loss) before changes in working capital</b>		<b>449,018,758</b>	<b>(451,248,097)</b>
<b>Changes in working capital</b>			
<i>(Increase) / decrease in current assets:</i>			
Stores, spares and loose tools		(1,778,917)	42,349,172
Stock in trade		687,007,825	804,039,018
Trade receivables		(208,490,183)	68,316,039
Advances, deposits, prepayments and other receivables		(57,504,238)	68,192,826
		<u>419,234,487</u>	<u>982,897,055</u>
<i>Decrease in current liabilities:</i>			
Trade and other payables		(240,919,874)	(309,219,965)
<b>Cash generated from operations</b>		<b>627,333,371</b>	<b>222,428,993</b>
<b>39 Cash and cash equivalents</b>			
Short term borrowings - running finance - secured	12	(728,108,627)	(1,076,169,156)
Cash and bank balances	27	24,313,898	143,040,613
		<u>(703,794,729)</u>	<u>(933,128,543)</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

## 40 Transactions and balances with related parties

Related parties from the Group's perspective comprise associated undertakings, key management personnel (including chief executive and directors), post employment benefit plan and other related parties. The Group in the normal course of business carries out transactions with various related parties and continues to have a policy whereby all such transactions are carried out on permissible basis with the exceptions as approved by the Board of Directors.

Details of transactions and balances with related parties are as follows:

	2014	2013
	Rupees	Rupees
<b>40.1 Transactions with related parties</b>		
<b>40.1.1 Other related parties</b>		
<b>JS Bank Limited</b>		
Redeemable capital repaid	-	84,848,231
Mark-up expense	22,419,486	35,417,034
Remuneration of Trustee	1,500,000	3,000,000
Mark-up paid	14,239,774	123,066,116
<b>JS Value Fund Limited</b>		
Redeemable capital - TFC II repayment	-	(25,415,775)
Redeemable capital - TFC VI disbursement	2,129,523	3,366,593
<b>Unit Trust of Pakistan</b>		
Redeemable capital - TFC V repayments	-	(18,019,234)
Mark-up expense	3,483,292	4,352,918
<b>JS Large Cap Fund</b>		
Redeemable capital - PPTFC disbursement	-	83,160,000
Mark-up expense	9,147,600	8,122,353
Mark-up paid	10,399,458	4,536,207
<b>JS Global Capital Limited</b>		
Redeemable capital - PPTFC disbursement	-	326,456,184
Mark-up expense	35,910,180	31,895,072
Mark-up paid	18,071,366	17,807,514
<b>JS Principal Secure Fund</b>		
Redeemable capital - PPTFC disbursement	-	33,480,000
Mark-up expense	3,682,800	3,270,991
Mark-up paid	4,186,795	1,826,265
<b>JS Pension Savings Fund</b>		
Redeemable capital - TFC V repayments	-	(5,405,770)
<b>JS Income Fund</b>		
Redeemable capital - TFC II repayments	-	(9,594,455)
Redeemable capital - TFC V repayments	-	(27,028,851)
Mark-up expense	4,287,188	7,800,266
<b>JS Growth Fund</b>		
Redeemable capital - TFC II repayments	-	(21,179,813)
Redeemable capital - PPTFC disbursement	-	64,200,000
Mark-up expense	8,836,603	9,076,595
Mark-up paid	8,028,442	3,501,978

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>40.1.2 Post employment benefit plans</b>		
Contribution to employees Provident Fund Trust	99,471,266	110,692,736
Interest payable on employees provident fund	8,588,691	18,689,139
<b>40.1.3 Key management personnel</b>		
The remuneration paid to chief executive, directors, executive and key management personnel in terms of their employment is disclosed in note 45 to the consolidated financial statements.		
	2014 Rupees	2013 Rupees
<b>40.2 Balances with related parties</b>		
<b>40.2.1 Other related parties</b>		
<b>JS Bank Limited</b>		
Redeemable capital - TFC IV	65,021,777	65,033,776
Short term borrowing	331,667,177	336,026,713
Mark-up payable	23,568,167	16,806,556
Cash and bank - <i>current account</i>	78,384	7,491,793
<b>JS Value Fund Limited</b>		
Redeemable capital - TFC II	19,523,024	19,523,025
Redeemable capital - TFC VI	12,900,000	12,900,000
Mark-up payable	6,351,407	4,846,631
<b>Unit Trust of Pakistan</b>		
Redeemable capital - TFC V	31,980,766	31,980,766
Redeemable capital - TFC VI	19,265,000	19,265,000
Mark-up payable	9,038,460	5,993,891
<b>JS Large Cap Fund</b>		
Redeemable capital - PPTFCs	83,160,000	83,160,000
Mark-up payable	4,058,083	1,829,520
<b>JS Global Capital Limited</b>		
Redeemable capital - PPTFCs	326,456,184	326,456,184
Mark-up payable	15,930,572	7,182,036
Advisory fee payable	-	4,000,000
<b>JS Principal Secure Fund</b>		
Redeemable capital - PPTFC	33,480,000	33,480,000
Mark-up payable	1,633,774	736,560
<b>JS Pension Savings Fund</b>		
Redeemable capital - TFC VI	3,850,000	3,850,000
<b>JS Income Fund</b>		
Redeemable capital - TFC II	7,369,942	7,369,942
Redeemable capital - TFC V	31,980,766	47,971,149
Redeemable capital - TFC VI	24,135,000	24,135,000
Mark-up payable	11,436,116	10,820,439
<b>JS Growth Fund</b>		
Redeemable capital - TFC II	16,269,187	16,269,187
Redeemable capital - TFC VI	10,750,000	10,750,000
Redeemable capital - PPTFC disbursement	64,200,000	64,200,000
Mark-up payable	8,425,703	5,451,260

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>40.2.3 Post employment benefit plans</b>		
Payable to employees Provident Fund Trust	54,950,366	83,897,625
<b>40.2.4 Key management personnel</b>		
Short term employee benefits payable	18,975,476	22,868,033

### 41 Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's Board of Directors ("the Board") has overall responsibility for establishment and oversight of the Group's risk management framework. The Board has developed a risk policy that sets out fundamentals of risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board reviews and agrees policies for managing each of these risks.

#### 41.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment in debt securities. To manage credit risk the Group maintains procedures covering the application for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

##### 41.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the end of the reporting period was as follows:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>Available for sale financial assets</b>			
Long term investments	19	231,897,015	266,105,729
Short term investment	25	700,000,000	700,000,000
		<b>931,897,015</b>	<b>966,105,729</b>
<b>Loans and receivables</b>			
Long term deposit - utility companies and regulatory authorities	20	17,453,047	22,175,676
Long term deposit - financial institutions	20	-	5,193,740
Due from Agritech Limited - secured	24	14,561,755	16,600,910
Trade debts	23	2,839,179,664	2,757,283,943
Advance to employees - against salaries	24	17,128,954	14,561,020
Security deposits	24	7,542,177	5,967,336
Margin deposits	24	34,027,315	34,238,755
Insurance claims	24	11,860,415	10,105,655
Cash at banks	27	22,982,283	140,817,059
		<b>2,964,735,610</b>	<b>3,006,944,094</b>
		<b>3,896,632,625</b>	<b>3,973,049,823</b>

### 41.1.2 Concentration of credit risk

The Group identifies concentrations of credit risk by reference to type counter party. Maximum exposure to credit risk by type of counterparty is as follows:

	2014 Rupees	2013 Rupees
Customers	2,839,179,664	2,757,283,943
Banking companies and financial institutions	64,551,775	186,216,890
Related party	12,030	12,030
Others	992,889,156	1,029,536,960
	<b>3,896,632,625</b>	<b>3,973,049,823</b>

### 41.1.3 Credit quality and impairment

Credit quality of financial assets is assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. All counterparties, with the exception of customers, have external credit ratings determined by various credit rating agencies. Credit quality of customers is assessed by reference to historical defaults rates and present ages.

#### 41.1.3(a) Counterparties with external credit ratings

These include banking companies and financial institutions, which are counterparties to cash deposits, security deposits, margin deposits, insurance claims and issuers of debt securities which are counterparties to investment in debt securities and accrued return thereon. These counterparties have reasonably high credit ratings as determined by various credit rating agencies. Due to long standing business relationships with these counterparties and considering their strong financial standing, management does not expect non-performance by these counterparties on their obligations to the Group. Following are the credit ratings of counterparties with external credit ratings:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	Rating		Rating agency	2014	2013
	Short term	Long term		Rupees	Rupees
<b><u>Bank</u></b>					
Allied Bank Limited	A1+	AA+	PACRA	25,253	25,288
Albaraka Bank (Pakistan) Limited	A1	A	PACRA	68,518	1,093,207
Askari Bank Limited	A1+	AA	PACRA	39,895	40,478
Barclays Bank Pakistan	P-1	A2	Moody's	1,486	-
Bank Al-Habib Limited	A1+	AA+	PACRA	15,335,035	88,637,193
Bank Alfalah Limited	A1+	AA	PACRA	62,737	519,002
Bank Islami Pakistan Limited	A1	A	PACRA	43,696	478,771
Faysal Bank Limited	A1+	AA	PACRA	3,155,051	17,885,645
Habib Bank Limited	A-1+	AAA	JCR-VIS	124,036	416,303
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,064	2,243
HSBC Bank Middle East Limited	F1+	AA-	Fitch	13,977	22,343
JS Bank Limited	A1	A+	PACRA	116,476	7,491,793
KASB Bank Limited	A3	BBB	PACRA	150,431	595,206
MCB Bank Limited	A1+	AAA	PACRA	204,081	731,491
Meezan Bank Limited	A-1+	AA	JCR-VIS	5,568	5,568
National Bank of Pakistan	A-1+	AAA	JCR-VIS	732,286	18,829
NIB Bank Limited	A1+	AA-	PACRA	487,160	1,064,159
Silk Bank Limited	A-2	A-	JCR-VIS	393,631	1,019,524
Soneri Bank Limited	A1+	AA-	PACRA	15,740	14,825
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	141,357	18,492
Summit Bank Limited	A-3	A-	JCR-VIS	275,802	1,158,441
The Bank of Punjab	A1+	AA-	PACRA	25,097	424,097
United Bank Limited	A-1+	AA+	JCR-VIS	68,732	731,514
Bank of Khyber	A1	A	PACRA	8,315	7,783,631
Subsidiary bank balances				1,486,859	10,639,016
				<b>22,982,283</b>	<b>140,817,059</b>
<b><u>Margin deposits</u></b>					
Summit Bank Limited	A-3	A-	JCR-VIS	34,027,315	34,027,315
<b><u>Letters of credit</u></b>					
Faysal Bank Limited	A1+	AA	PACRA	193,365	1,489,607
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	4,888,069	-
NIB Bank Limited	A1+	AA-	PACRA	150,224	-
Summit Bank Limited	A-3	A-	JCR-VIS	3,217,457	24,474,667
				<b>8,449,115</b>	<b>25,964,274</b>

### 41.1.3(b) Counterparties without external credit ratings

These mainly include customers which are counter parties to trade debts. The Group is exposed to credit risk in respect of trade debts. The Group allows 15 to 180 days credit period to its customers. The analysis of ages of trade debts of the Group as at the reporting date is as follows:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014		2013	
	Gross carrying amount Rupees	Accumulated impairment Rupees	Gross carrying amount Rupees	Accumulated impairment Rupees
<b>Continuing operations</b>				
Not yet due	1,569,608,981	-	647,197,809	-
Past due by 0 to 6 months	59,340,076	-	616,498,291	-
Past due by 6 to 12 months	954,102,559	-	386,718,511	-
Past due by more than one year	<u>714,886,444</u>	<u>458,758,396</u>	<u>1,540,232,223</u>	<u>433,362,891</u>
	<u>3,297,938,060</u>	<u>458,758,396</u>	<u>3,190,646,834</u>	<u>433,362,891</u>

The Group's five significant customers account for Rs. 881.835 million (2013: Rs. 607 million) of trade debts as at the reporting date, apart from which, exposure to any single customer does not exceed 4% (2013: 3%) of trade debts as at the reporting date. Further, trade debts amounting to Rs. 1,043 million (2013: Rs. 1808 million) secured through confirmed letters of credit and thus do not carry any significant credit risk.

The Board has formulated a policy to create provision allowance for trade debts on a time based criteria. Provision allowance on closing trade debt balances has adequately been created in accordance with the approved policy. Further, based on historical default rates, the Group believes that no impairment allowance other than already provided is necessary in respect of trade debts not past due or those past due by less than one year, since these relate to customers who have had good payment record with the Group.

The Group at the time of making investments performs detailed due diligence process to mitigate the risk of failure of the counter party.

#### 41.1.4 Collateral held

The Group does not hold any collateral to secure its financial assets with the exception of trade debts, which are partially secured through confirmed letters of credit and investment in debt securities which are secured by charge over issuer's operating assets.

#### 41.1.5 Credit risk management

As mentioned in note 41.1.3(b) to the consolidated financial statements, the Group's financial assets do not carry significant credit risk, with the exception of trade debts, which are exposed to losses arising from any non-performance by counterparties. In respect of trade debts, the Group manages credit risk by limiting significant exposure to any single customer. Formal policies and procedures of credit management and administration of receivables are established and executed. In monitoring customer credit risk, the ageing profile of total receivables 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, including suspending future shipments and administering dispatches on a prepayment basis or confirmed letters of credit.

#### 41.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets, or that such obligations will have to be settled in a manner unfavorable to the Group. Management closely monitors the Group's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customers.

##### 41.2.1 Exposure to liquidity risk

##### 41.2.1(a) Contractual maturities of financial liabilities, including estimated interest payments

The following are the remaining contractual maturities at the reporting date. The amounts are grossed and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

		2014				
Note	Carrying amount Rupees	Contractual cash flows Rupees	One year or less	One to three	More than three	
			Rupees	years	years	
			Rupees	Rupees	Rupees	
<b>Non-derivative financial liabilities</b>						
Redeemable capital	8	6,024,844,185	6,769,764,322	1,910,048,561	4,091,613,678	768,102,083
Long term finances	9	1,791,930,428	1,997,279,109	370,415,341	842,146,352	784,717,416
Liabilities against assets subject to finance lease	10	29,503,353	33,287,040	11,695,680	21,591,360	-
Preference shares	11	148,367,255	148,367,255	148,367,255	-	-
Short term borrowings	12	4,726,872,126	5,173,161,656	5,173,161,656	-	-
Trade creditors	13	1,772,204,542	1,772,204,542	1,772,204,542	-	-
Bills payable	13	345,833,562	345,833,562	345,833,562	-	-
Accrued liabilities	13	388,478,794	388,478,794	388,478,794	-	-
Payable to provident fund trust	13	54,950,366	54,950,366	54,950,366	-	-
Workers' profit participation fund	13	62,391,516	62,391,516	62,391,516	-	-
Other payables	13	14,436,690	14,436,690	14,436,690	-	-
Mark-up accrued on borrowings	14	2,214,256,456	2,214,256,456	2,214,256,456	-	-
Dividend payable	15	13,415,572	13,415,572	13,415,572	-	-
		<u>17,587,484,845</u>	<u>18,987,826,880</u>	<u>12,479,655,991</u>	<u>4,955,351,390</u>	<u>1,552,819,499</u>
		2013				
	Carrying amount Rupees	Contractual cash flows Rupees	One year or less	One to three	More than three	
			Rupees	years	years	
			Rupees	Rupees	Rupees	
<b>Non-derivative financial liabilities</b>						
Redeemable capital	8	6,024,844,185	7,072,708,474	853,664,443	5,450,941,948	768,102,083
Long term finances	9	1,773,447,469	2,076,669,730	207,207,807	1,117,082,011	752,379,912
Liabilities against assets subject to finance lease	10	32,586,801	39,047,657	27,223,579	11,824,078	-
Preference shares	11	148,367,255	148,367,255	148,367,255	-	-
Short term borrowings	12	5,024,533,069	5,494,591,302	5,494,591,302	-	-
Trade creditors	13	1,865,832,652	1,865,832,652	1,865,832,652	-	-
Bills payable	13	385,516,037	385,516,037	385,516,037	-	-
Accrued liabilities	13	420,242,718	420,242,718	420,242,718	-	-
Payable to provident fund trust	13	83,897,625	83,897,625	83,897,625	-	-
Workers' profit participation fund	13	55,243,056	55,243,056	55,243,056	-	-
Other payables	13	71,169,229	71,169,229	71,169,229	-	-
Mark-up accrued on borrowings	14	1,501,702,254	1,501,702,254	1,501,702,254	-	-
Dividend payable	15	13,415,572	13,415,572	13,415,572	-	-
		<u>17,400,797,922</u>	<u>19,228,403,561</u>	<u>11,128,073,529</u>	<u>6,579,848,037</u>	<u>1,520,481,995</u>

#### 41.2.2 Liquidity risk management

The Group'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 Group's reputation.

The Group is facing a temporary liquidity shortfall due to the facts disclosed in note 2.2 as a result of which it was unable to meet its obligations in respect of various debt finances. The details are as follows:

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

<u>Nature of liability</u>	<u>Principal</u> Rupees	<u>Preference dividend / Interest / mark-up</u> Rupees	<u>Total</u> Rupees
Preference shares	148,367,255	-	148,367,255
Dividend on preference shares	-	9,413,535	9,413,535
Long term finances	1,030,321,933	381,169,892	1,411,491,825
Redeemable capital	547,252,308	751,216,069	1,298,468,377
Short term borrowings	646,443,432	716,388,037	1,362,831,469
Bills payables	268,234,489	56,935,958	325,170,447
	<u>2,640,619,417</u>	<u>1,915,123,491</u>	<u>4,555,742,908</u>

As explained in note 2.2, the Group is in discussions with the providers of debt for a second round of restructuring and debt re-profiling. For the said purpose, the management is negotiating with the debt financiers for conversion / upfront settlement at a discount of over due interest / mark-up accrued, and disposal of its low performing assets for settlement of overdue principal of its long term debts.

### 41.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

#### 41.3.1 Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Group. The functional currency of the Group is Pak Rupee. The currencies in which these transactions are primarily denominated are Hong Kong dollars, Euros, US dollars, Renminbi, Pound Sterling and Swiss franc.

##### 41.3.1(a) Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows:

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014				
	EURO	USD	GBP	RMB	Total
	Rupee	Rupee	Rupee	Rupee	Rupee
<b>Assets</b>					
Trade debts	1,209,177,503	1,987,546,816	101,213,741	-	3,297,938,060
Cash and bank balances	1,910,422	117,521	-	-	2,027,943
	1,211,087,925	1,987,664,337	101,213,741	-	3,299,966,003
<b>Liabilities</b>					
Long term finances	(946,537,228)	-	-	-	(946,537,228)
Short term borrowings	(147,266,492)	(391,225,740)	-	-	(538,492,232)
Mark-up accrued on borrowings	(83,593,872)	(24,184,635)	-	-	(107,778,507)
Trade creditors	(190,128,036)	(21,307,824)	-	(98,585)	(211,534,445)
Bills payable	(2,519,737)	(10,083,098)	-	-	(12,602,835)
	(1,370,045,365)	(446,801,297)	-	(98,585)	(1,816,945,247)
<b>Net balance sheet exposure</b>	<b>(158,957,440)</b>	<b>1,540,863,040</b>	<b>101,213,741</b>	<b>(98,585)</b>	<b>1,483,020,756</b>
	2013				
	EURO	USD	GBP	RMB	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Assets</b>					
Trade receivables	1,380,856,891	946,027,770	92,069,029	-	2,418,953,690
Cash and bank balances	341,466	117,581	-	-	459,047
	1,381,198,357	946,145,351	92,069,029	-	2,419,412,737
<b>Liabilities</b>					
Long term finances	(907,054,269)	-	-	-	(907,054,269)
Short term borrowings	-	(466,448,835)	-	-	(466,448,835)
Mark-up accrued on borrowings	(27,000,774)	(3,549,761)	-	-	(30,550,535)
Trade creditors	(38,980,495)	(33,894,448)	-	-	(72,874,943)
Bills payable	(5,695,688)	(124,275,580)	-	-	(129,971,268)
	(978,731,226)	(628,168,624)	-	-	(1,606,899,850)
<b>Net balance sheet exposure</b>	<b>402,467,131</b>	<b>317,976,727</b>	<b>92,069,029</b>	<b>-</b>	<b>812,512,887</b>

#### 41.3.1(b) Exchange rates applied during the year

The following significant exchange rates have been applied during the year:

	2014			2013		
	Reporting date spot rate		Average rate for the year	Reporting date spot rate		Average rate for the year
	Buying	Selling		Buying	Selling	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
EURO	134.46	134.73	139.59	128.85	129.11	129.87
USD	98.55	98.75	102.89	98.60	98.80	100.00
GBP	167.79	168.13	167.27	150.57	150.87	151.52
CHF	110.59	110.82	113.80	104.49	104.71	105.26
HKD	12.71	12.74	13.27	-	-	-
RMB	16.01	16.05	16.75	-	-	-
AED	-	-	-	26.85	26.90	27.10

#### 41.3.1(c) Sensitivity analysis

A reasonably possible strengthening / (weakening) of 10% in Pak Rupee against the following currencies would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014	2013
	Profit	Profit
	Rupees	Rupees
EURO	(15,895,744)	40,246,713
USD	154,086,304	31,797,673
GBP	10,121,374	9,206,903
RMB	(9,859)	-
	<u>148,302,075</u>	<u>81,251,289</u>

### 41.3.1(d) *Currency risk management*

The Group manages its exposure to currency risk through continuous monitoring of expected / forecast committed and non-committed foreign currency payments and receipts. Reports on forecast foreign currency transactions, receipts and payments are prepared on monthly basis, exposure to currency risk is measured and appropriate steps are taken to ensure that such exposure is minimized while optimizing return. This includes matching of foreign currency liabilities / payments to assets / receipts, using source inputs in foreign currency. The Group maintains foreign currency working capital lines in order to finance production of exportable goods. Proceeds from exports are used to repay / settle / rollover the Group's obligations under these working capital lines which substantially reduces exposure to currency risk in respect of such liabilities. Balances in foreign currency are also maintained in current and saving / deposits accounts with banking companies.

### 41.3.2 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. Sensitivity to interest rate risk arises from mismatch of financial assets and financial liabilities that mature or re-price in a given period.

### 41.3.2(a) *Interest / mark-up bearing financial instruments*

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

	2014		2013	
	Financial asset Rupees	Financial liability Rupees	Financial asset Rupees	Financial liability Rupees
<i>Non-derivative financial instruments</i>				
Fixed rate instruments	3,176,569	746,973,805	22,787,827	775,921,064
Variable rate instruments	231,864,928	9,219,048,986	266,074,508	9,533,844,433

### 41.3.2(b) *Fair value sensitivity analysis for fixed rate instruments and fair value hedges*

The Group does not account for fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not effect profit or loss.

### 41.3.2(c) *Cash flow sensitivity analysis for variable rate instruments and cash flow hedges*

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit by amounts shown below. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2014	2013
	Profit	Profit
	Rupees	Rupees
<u>Variable rate instruments</u>		
Increase of 100 basis points	<u>(89,871,841)</u>	<u>(92,677,699)</u>
Decrease of 100 basis points	<u>89,871,841</u>	<u>92,677,699</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

## 41.3.2(d) Interest rate risk management

The Group manages interest rate risk by analyzing 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, alternative financing and hedging. Based on these scenarios, the Group calculates impact on profit after taxation and equity of defined interest rate shift, mostly 100 basis points. Cross currency swaps are also arranged to transfer exposure to more stable markets. Fair value interest rate risks are managed by arranging fixed to variable rate swaps.

## 41.3.3 Price risk

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 Group's exposure to price risk is insignificant.

## 41.4 Fair values

### 41.4.1 Fair value versus carrying amounts

The carrying values of all financial assets and liabilities reflected in the consolidated financial statements approximates their fair values.

### 41.4.2 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 Rupees	Level 2 Rupees	Level 3 Rupees
<b>30 June 2014</b>			
<b>Available for sale investments</b>			
Long term investments	32,087	-	-
Short term investment - <i>Agritech Limited</i>	-	-	700,000,000
	<u>32,087</u>	<u>-</u>	<u>700,000,000</u>
<b>30 June 2013</b>			
<b>Available for sale investments</b>			
Long term investments	31,221	-	-
Short term investment - <i>Agritech Limited</i>	-	-	700,000,000
	<u>31,221</u>	<u>-</u>	<u>700,000,000</u>

### 41.4.3 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

#### Long term investments - level 1

The fair value of available for sale investment is determined by reference to their quoted closing repurchase price at the reporting date.

#### Short term investment - level 3 - Agritech Limited

Investment in AGL is valued at Rs. 35.00 per share on the basis of price agreed in the Agreement.

# Notes to the Consolidated Financial Statements

## for the year ended 30 June 2014

### 41.4.4 Significance of fair value accounting estimates to the Group's financial position and performance

The Group uses fair value accounting for its financial instruments in determining its overall financial position and in making decisions about individual financial instruments. This approach reflects the judgment of the Group about the present value of expected future cash flows relating to an instrument. The management believes that fair value information is relevant to many decisions made by users of financial statements as it permits comparison of financial instruments having substantially the same economic characteristics and provides neutral basis for assessing the management's stewardship by indicating effects of its decisions to acquire, sell or hold financial assets and to incur, maintain or discharge financial liabilities.

### 42 Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders.

The Group manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

	Unit	2014	2013
Total debt	Rupees	7,846,277,966	7,830,878,455
Total equity including revaluation surplus	Rupees	3,890,097,318	4,413,201,129
Total capital employed	Rupees	<u>11,736,375,284</u>	<u>12,244,079,584</u>
Gearing	Percentage	<u>66.85%</u>	<u>63.96%</u>

Total debt comprises of redeemable capital, long term finances and liabilities against assets subject to finance lease.

There were no changes in the Group's approach to capital management during the year. However, defaults / overdue relating to financial obligations of the Group, as referred to in note 41.2.2 to the financial statements, may cause changes in the Group's approach to capital management. The Group is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants including restriction on dividend declaration, imposed by the providers of debt finance. Increase in gearing is mainly due to current year losses and resultant decrease in equity.

### 43 Restriction on title and assets pledged as security

#### Mortgages and charges

##### First

Hypothecation of all present and future assets and properties  
Mortgage over land and building

	2014 Rupees	2013 Rupees
Hypothecation of all present and future assets and properties	27,000,000,000	27,000,000,000
Mortgage over land and building	27,000,000,000	27,000,000,000

##### Ranking

Hypothecation of all present and future assets and properties  
Mortgage over land and building

Hypothecation of all present and future assets and properties	4,666,666,667	4,666,666,667
Mortgage over land and building	4,666,666,667	4,666,666,667

Hypothecation of all present and future assets and properties  
Mortgage over land and building

Hypothecation of all present and future assets and properties	750,000,000	750,000,000
Mortgage over land and building	750,000,000	750,000,000

## Notes to the Consolidated Financial Statements

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	2014	2013
	Rupees	Rupees
<b><u>Pledge</u></b>		
Raw material		
Finished goods	491,105,041	757,541,963
Investments in equity securities	167,281,791	175,804,000
Investments in debt securities	700,000,000	700,000,000
	<b>126,080,519</b>	<b>126,080,519</b>

Pledge of equity securities amounting to Rs. 700.000 million (2013: Rs. 700.000 million) relates to facilities availed by AGL.

#### 44 Segment information

44.1 The Group has four reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately as they require different technology and marketing strategies. Information reported to the Group's chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on type of goods supplied. The following summary describes the operations in each of the Group's reportable segments:

##### Continuing operations

Spinning segment	production of different qualities yarn using natural and artificial fibers
Weaving segment	production of different qualities of fabric using yarn
Garment segment	production and marketing of denim jeans
MSRL 100% subsidiary	sale of denim and denim products in European market

##### Discontinued operations

Fertilizer segment	manufacturing of nitrogenous and phosphatic fertilizers
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#### 44.2 Information about reportable segments

##### 44.2.1 Segment revenues and results



## Notes to the Consolidated Financial Statements for the year ended 30 June 2014

### 44.2.4 Assets

	Spinning segment		Weaving segment		Garment segment		MSRL 100% subsidiary		Elimination		Total	
	2014 Rupees	2013 Rupees	2014 Rupees	2013 Rupees	2014 Rupees	2013 Rupees	2014 Rupees	2013 Rupees	2014 Rupees	2013 Rupees	2014 Rupees	2013 Rupees
Total assets for reportable segments	1,188,345,260	1,716,314,050	4,943,800,182	5,624,904,822	1,378,837,199	1,091,455,630	2,531,186,976	2,427,938,819	(2,929,186,142)	(3,231,103,772)	7,112,983,075	7,629,509,549
Other unallocated amounts	1,188,345,260	1,716,314,050	4,943,800,182	5,624,904,822	1,378,837,199	1,091,455,630	2,531,186,976	2,427,938,819	(2,929,186,142)	(3,231,103,772)	20,941,645,723	13,323,509,614

### 44.2.5 Liabilities

Total liabilities for reportable segments	813,112,367	781,873,655	1,522,076,932	1,346,991,844	2,204,337,734	2,873,314,682	1,244,917,730	1,324,671,862	(3,056,206,660)	(3,356,267,648)	2,728,238,103	2,970,534,395
Other unallocated amounts	813,112,367	781,873,655	1,522,076,932	1,346,991,844	2,204,337,734	2,873,314,682	1,244,917,730	1,324,671,862	(3,056,206,660)	(3,356,267,648)	14,323,310,302	13,569,278,639

There were no assets and liabilities of discontinued operations as at 30 June 2013 due to its disposal during that year.

### 44.2.6 Geographical information

The segments of the Group are managed on a worldwide basis, but operate manufacturing facilities and sales offices in Pakistan and Italy. In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>Revenue - gross</b>		
<b><u>Foreign revenue</u></b>		
Asia	4,587,413,895	4,690,277,806
Europe	6,106,055,223	6,867,728,555
South America	498,322,265	46,584,835
North America	21,130,328	31,026,729
Africa	301,713,767	335,538,403
Australia	-	1,664,449
Other countries	148,910,977	466,680,877
	<b>11,663,546,455</b>	<b>12,439,501,654</b>
<b><u>Local revenue</u></b>		
Pakistan	2,143,612,001	2,038,185,223
	<b>13,807,158,456</b>	<b>14,477,686,877</b>
<b>44.2.7 Non-current assets</b>		
Pakistan	13,788,433,655	13,244,903,201
Europe - Italy	862,615,556	717,026,800
	<b>14,651,049,211</b>	<b>13,961,930,001</b>

### 45 Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the consolidated financial statements for the year in respect of remuneration, including all benefits to the Chief Executive, Directors and Executives of the Group is as follows:

	2014			
	Directors			Executives Rupees
	Chief Executive Rupees	Executive Rupees	Non-executive Rupees	
Managerial remuneration	15,999,996	10,662,337	-	189,722,553
Medical	1,599,996	1,066,237	-	13,896,371
Utility and house rent	6,400,008	5,788,426	-	80,491,243
Post employment benefits	1,359,996	906,305	-	37,593,358
	<b>25,359,996</b>	<b>18,423,305</b>	<b>-</b>	<b>321,703,525</b>
Number of persons	<b>1</b>	<b>3</b>	<b>3</b>	<b>131</b>
	2013			
	Directors			Executives Rupees
	Chief Executive Rupees	Executive Rupees	Non-executive Rupees	
Managerial remuneration	15,999,996	14,347,273	-	178,249,855
Medical	1,599,996	1,434,723	-	27,968,765
Utility and house rent	6,400,008	7,681,662	-	89,769,121
Post employment benefits	1,359,996	1,219,518	-	10,767,689
	<b>25,359,996</b>	<b>24,683,176</b>	<b>-</b>	<b>306,755,430</b>
Number of persons	<b>1</b>	<b>3</b>	<b>3</b>	<b>138</b>

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2014

45.1 The chief executive is provided with free use of ANL maintained car.

46 Plant capacity and actual production	Unit	2014	2013
<b><i>Spinning</i></b>			
Number of rotors installed	No.	2,416	2,416
Plant capacity on the basis of utilization converted into 6.5s count	Kgs	14,877,295	14,877,295
Actual production converted into 6.5s count	Kgs	9,954,610	9,805,510
Number of spindles installed	No.	54,888	54,888
Plant capacity on the basis of utilization converted into 20s count	Kgs	14,668,821	14,668,821
Actual production converted into 20s count	Kgs	3,950,438	7,214,238
<b><i>Weaving</i></b>			
Number of looms installed	No.	230	230
Annual capacity on the basis of utilization converted into 38 picks	Mtrs	49,407,078	49,407,078
Actual production converted into 38 picks	Mtrs	31,329,159	26,880,801
<b><i>Garments</i></b>			
Number of stitching machines installed	No.	2,229	2,229
Annual capacity on the basis of utilization	Pcs	12,000,000	12,000,000
Actual production	Pcs	4,090,423	4,293,374

It is difficult to precisely describe production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist, picks etc. It would also vary according to the pattern of production adopted in a particular year.

### 47 Provident Fund Trust

The following information related to ANL is based on latest audited financial statements of Provident Fund Trust.

	Unit	2014	2013
Size of fund - total assets	Rupees	161,996,914	175,369,701
Cost of investments made	Rupees	29,952,497	29,952,497
Percentage of investments made	Percentage	18.49%	17.08%
Fair value of investment	Rupees	38,954,623	22,027,864

The breakup of fair value of investments is as follows:

	2014 Rupees	2014 Percentage	2013 Rupees	2013 Percentage
Shares in listed companies	1,548,283	3.97%	1,691,784	7.68%
Debt securities	9,534,049	24.47%	9,534,049	43.28%
Mutual funds	27,872,291	71.55%	10,802,031	49.04%
	<b>38,954,623</b>	<b>100.00%</b>	<b>22,027,864</b>	<b>100.00%</b>

## Notes to the Consolidated Financial Statements

### for the year ended 30 June 2014

The investments of the Provident Fund Trust are not in compliance with the provision of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

#### 48 Number of employees

The average and total number of employees of the Group are as follows:

	<u>2014</u>	<u>2013</u>
Average number of employees during the year	<u>7,782</u>	<u>8,744</u>
Total number of employees as at 30 June	<u>6,984</u>	<u>7,934</u>

#### 49 Date of authorization for issue

These consolidated financial statements were authorized for issue on 02 October 2014 by the Board of Directors of the Group.

#### 50 General

Figures have been rounded off to the nearest rupee.




## Pattern of Shareholding

Ordinary Shares as at June 30, 2014

Number of Shareholders	Shareholdings		Total Shares Held	Percentage of Total Capital
	From	To		
411	1 -	100	16,715	0.00
868	101 -	500	340,209	0.08
1079	501 -	1000	988,524	0.22
2621	1001 -	5000	7,854,446	1.75
1051	5001 -	10000	8,604,268	1.91
407	10001 -	15000	5,373,141	1.20
277	15001 -	20000	5,184,905	1.15
212	20001 -	25000	5,039,561	1.12
133	25001 -	30000	3,792,447	0.84
79	30001 -	35000	2,658,145	0.59
77	35001 -	40000	2,956,499	0.66
43	40001 -	45000	1,849,266	0.41
111	45001 -	50000	5,481,687	1.22
22	50001 -	55000	1,158,944	0.26
23	55001 -	60000	1,349,904	0.30
21	60001 -	65000	1,320,987	0.29
23	65001 -	70000	1,587,194	0.35
26	70001 -	75000	1,919,108	0.43
12	75001 -	80000	945,608	0.21
11	80001 -	85000	904,509	0.20
22	85001 -	90000	1,947,754	0.43
5	90001 -	95000	460,123	0.10
72	95001 -	100000	7,197,484	1.60
10	100001 -	105000	1,021,003	0.23
13	105001 -	110000	1,410,726	0.31
9	110001 -	115000	1,015,852	0.23
6	115001 -	120000	716,150	0.16
6	120001 -	125000	746,000	0.17
8	125001 -	130000	1,030,500	0.23
7	130001 -	135000	927,900	0.21
7	135001 -	140000	973,000	0.22
6	140001 -	145000	860,000	0.19
11	145001 -	150000	1,644,500	0.37
4	150001 -	155000	613,000	0.14
2	155001 -	160000	319,000	0.07
2	160001 -	165000	323,000	0.07
4	165001 -	170000	671,626	0.15
2	170001 -	175000	348,000	0.08
1	175001 -	180000	180,000	0.04
3	180001 -	185000	555,000	0.12
1	185001 -	190000	190,000	0.04
1	190001 -	195000	192,490	0.04
14	195001 -	200000	2,798,000	0.62
3	205001 -	210000	624,500	0.14
2	210001 -	215000	425,602	0.09
1	220001 -	225000	225,000	0.05
2	225001 -	230000	460,000	0.10
1	230001 -	235000	231,000	0.05
1	235001 -	240000	238,000	0.05

## Pattern of Shareholding

Ordinary Shares as at June 30, 2014

Number of Shareholders	Shareholdings		Total Shares Held	Percentage of Total Capital
	From	To		
1	240001 -	245000	243,959	0.05
9	245001 -	250000	2,250,000	0.50
2	250001 -	255000	505,000	0.11
2	270001 -	275000	547,200	0.12
1	275001 -	280000	277,000	0.06
1	280001 -	285000	283,000	0.06
1	285001 -	290000	290,000	0.06
1	290001 -	295000	294,000	0.07
5	295001 -	300000	1,500,000	0.33
1	320001 -	325000	325,000	0.07
2	325001 -	330000	655,500	0.15
1	330001 -	335000	332,000	0.07
1	340001 -	345000	343,000	0.08
2	345001 -	350000	696,500	0.16
2	350001 -	355000	701,354	0.16
1	360001 -	365000	365,000	0.08
2	365001 -	370000	739,000	0.16
1	370001 -	375000	371,500	0.08
1	375001 -	380000	380,000	0.08
1	380001 -	385000	383,000	0.09
4	395001 -	400000	1,600,000	0.36
1	405001 -	410000	409,100	0.09
1	455001 -	460000	460,000	0.10
1	460001 -	465000	463,000	0.10
1	475001 -	480000	478,523	0.11
3	495001 -	500000	1,500,000	0.33
1	530001 -	535000	533,000	0.12
1	540001 -	545000	540,500	0.12
1	555001 -	560000	558,357	0.12
1	595001 -	600000	600,000	0.13
1	610001 -	615000	614,500	0.14
1	645001 -	650000	645,064	0.14
1	660001 -	665000	663,055	0.15
2	675001 -	680000	1,359,000	0.30
1	695001 -	700000	700,000	0.16
1	710001 -	715000	712,500	0.16
1	745001 -	750000	750,000	0.17
1	870001 -	875000	875,000	0.19
1	895001 -	900000	900,000	0.20
1	920001 -	925000	925,000	0.21
3	995001 -	1000000	3,000,000	0.67
1	1020001 -	1025000	1,024,500	0.23
1	1075001 -	1080000	1,075,953	0.24
1	1375001 -	1380000	1,380,000	0.31
2	1495001 -	1500000	3,000,000	0.67
1	1715001 -	1720000	1,719,600	0.38
1	1950001 -	1955000	1,954,200	0.43
1	2005001 -	2010000	2,010,000	0.45
1	2155001 -	2160000	2,160,000	0.48

## Pattern of Shareholding

Ordinary Shares as at June 30, 2014

Number of Shareholders	Shareholdings		Total Shares Held	Percentage of Total Capital
	From	To		
1	2220001 -	2225000	2,222,222	0.49
1	2380001 -	2385000	2,380,260	0.53
1	3265001 -	3270000	3,268,908	0.73
1	3895001 -	3900000	3,900,000	0.87
1	4585001 -	4590000	4,586,819	1.02
1	4995001 -	5000000	5,000,000	1.11
1	5030001 -	5035000	5,031,883	1.12
1	5365001 -	5370000	5,365,197	1.19
1	5450001 -	5455000	5,452,465	1.21
1	5595001 -	5600000	5,600,000	1.25
1	6200001 -	6205000	6,201,644	1.38
1	7170001 -	7175000	7,170,500	1.60
1	8570001 -	8575000	8,573,000	1.91
1	9495001 -	9500000	9,500,000	2.11
1	10075001 -	10080000	10,078,656	2.24
1	10420001 -	10425000	10,425,000	2.32
1	19415001 -	19420000	19,419,189	4.32
1	22165001 -	22170000	22,169,691	4.93
1	30620001 -	30625000	30,622,000	6.81
1	38455001 -	38460000	38,460,000	8.56
1	112155001 -	112160000	112,157,863	24.96
<b>7,830</b>			<b>449,349,439</b>	<b>100.00</b>

Categories of shareholders	Share held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	41,355,009	9.20
Associated Companies, undertakings and related parties	112,157,863	24.96
NIT and ICP	570,060	0.13
Banks Development Financial Institutions, Non Banking Financial Institutions	39,837,412	8.87
Insurance Companies	7,055,477	1.57
Modarabas and Mutual Funds	880,500	0.20
Share holders holding 10%	112,157,863	24.96
General Public		
a. Local	164,214,525	36.54
b. Foreign	6,667,318	1.48
Others		
Investment Companies	38,521,723	8.57
Joint Stock Companies	27,027,112	6.01
Provident / Pension Funds and Misc	11,062,440	2.46

# Information as required under

## Code of Corporate Governance

Categories of Shareholders	Number of Shares	Percentage %
<b>Associated Companies, undertakings and related parties;</b>		
Jahangir Siddiqui & Co. Limited.	112,157,863	24.96
<b>Mutual Funds;</b>		
CDC - Trustee KASB Asset Allocation Fund	712,500	0.16
CDC - Trustee Crosby Dragon Fund	100,000	0.02
CDC - Trustee AKD Index Tracker Fund	68,000	0.02
CDC - Trustee National Investment (Unit) Trust	558,357	0.12
<b>Directors, Chief Executive Officer and their spouse and minor children;</b>		
Mr. Ahmed H. Shaikh	30,622,000	6.81
Mr. Aehsun M. H. Shaikh	10,733,000	2.39
Mr. Nasir Ali Khan Bhatti	5	0.00
Mr. Usman Rasheed	1	0.00
Mr. Naseer Miyan	1	0.00
Mr. Yasir Habib Hashmi	1	0.00
Mr. Munir Alam	1	0.00
<b>Executives;</b>	Nil	
<b>Public Sector Companies and Corporation, Banks, DFIs, Insurance Companies, Takaful, Modarabas &amp; Pension Funds;</b>	123,515,867	27.49
<b>Individuals</b>	<u>170,881,843</u>	<u>38.03</u>
	<u>449,349,439</u>	<u>100.00</u>
<b>Shareholders holding five percent or more voting rights in the listed Company</b>		
Mrs. Nasreen H. Shaikh	30,070,672	6.69
Mr. Ahmed H. Shaikh	30,622,000	6.81
SAJ Capital Management Ltd.	38,460,000	8.56
Jahangir Siddiqui & Co. Ltd.	112,157,863	24.96
<b>Detail of trading in shares by the Directors, CEO, CFO, Company Secretary their Spouses and Minor Children.</b>		
	Nil	

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**Form of Proxy**  
Azgard Nine Limited



I/We \_\_\_\_\_  
son/daughter of \_\_\_\_\_  
a member of Azgard Nine Limited and holder of \_\_\_\_\_ ordinary shares as  
per Registered Folio No. \_\_\_\_\_ do hereby appoint Mr./Ms. \_\_\_\_\_  
son/daughter of \_\_\_\_\_ or failing him/her  
Mr. Ms. \_\_\_\_\_  
son/daughter of \_\_\_\_\_  
who is also member of the Company vide Registered Folio No. \_\_\_\_\_

as my/our Proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday the 30 October 2014 at 10:00 a.m at the Registered Office of the Company Ismail Aiwan-i-Science, Off Shahrah-i-Roomi, Lahore and at any adjournment thereof.

In witness whereof on this \_\_\_\_\_ day of \_\_\_\_\_ 2014.

**WITNESSES:**

1. Signature: \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

Affix Revenue  
Stamp

CNIC: \_\_\_\_\_

2. Signature: \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

Member's Signature

CNIC: \_\_\_\_\_

**NOTE:**

1. The Form of Proxy should be deposited at the Registered Office of the Company not later than 48 hours before the time for holding the meeting.
2. CDC Shareholders, entitled to attend and vote at this meeting, must bring with them their national Identity Cards/Passport in original to provide his/her identity, and in case of Proxy, must enclosed an attested copy of his/her CNIC or Passport. Representatives of corporate members should bring the usual documents for such purpose.

AFFIX  
CORRECT  
POSTAGE

The Company Secretary  
**AZGARD NINE LIMITED**  
Ismail Aiwana-e-Science  
Lahore - 54600



**AZGARD-9**



Ismail Aiwan-e-Science,  
Shahrah-e-Roomi,  
Lahore-54600.  
Tel: +92 (0) 42 111-786-645  
[www.azgard9.com](http://www.azgard9.com)