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## Company Profile

### Board of Directors

Mr. Mohammad Abdullah	Chairman
Mr. Shayan Abdullah	Chief Executive
Mr. Amer Abdullah	
Mr. Yousuf Abdullah	
Mr. Nabeel Abdullah	
Mr. Mohammad Yamin	
Mr. Asif Elahi	Independent Director

### Audit Committee

Mr. Amer Abdullah	Chairman
Mr. Asif Elahi	Member
Mr. Nabeel Abdullah	Member

### Human Resource

#### & Remuneration Committee

Mr. Mohammad Yamin	Chairman
Mr. Shayan Abdullah	Member
Mr. Asif Elahi	Member

### Chief Financial Officer

Mr. Jawwad Faisal

### Company Secretary

Mr. Umar Rahi

### Bankers of the Company

Habib Bank Limited  
 Habib Metropolitan Bank Limited  
 MCB Bank Limited  
 Meezan Bank Limited  
 United Bank Limited

### Auditors

Deloitte Yousuf Adil  
 Chartered Accountants

### Tax Consultant

Deloitte Yousuf Adil  
 Chartered Accountants

### Legal Advisor

Hassan & Hassan Advocates

### Share Registrar

Hameed Majeed Associates (Pvt) Limited

### Geographical Presence:

### Registered Office

312, Cotton Exchange Building,  
 I.I. Chundrigar Road, Karachi

### Mills

Ferozwattoan  
 District, Sheikhpura, Punjab

### Company Website

[www.sapphire.com.pk/rcsml](http://www.sapphire.com.pk/rcsml)

## Vision

*To be one of the premier textile company recognized for leadership in technology, flexibility, responsiveness and quality.*

*Our customers will share in our success through innovative manufacturing, certifiable quality, exceptional services and creative alliances. Structured to maintain in depth competence and knowledge about our business, our customers and worldwide markets.*

*Our workforce will be the most efficient in industry through multiple skill learning, the fostering of learning and the fostering of teamwork and the security of the safest work environment possible recognised as excellent citizen in the local and regional community through our financial and human resources support and our sensitivity to the environment.*

## Mission

*Our mission is to be recognised as premier supplier to the markets we serve by providing quality yarns, fabrics and other textile products to satisfy the needs of our customers.*

*Our mission will be accomplished through excellence in customer service, sales and manufacturing supported by teamwork of all associates.*

*We will continue our tradition of honesty, fairness and integrity in relationship with our customers, associates, shareholders, community and stakeholders.*

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT 27th Annual General Meeting of **RELIANCE COTTON SPINNING MILLS LIMITED** will be held at Trading Hall, Cotton Exchange Building, I.I.Chundrigar Road, Karachi on Saturday the 29th day of October, 2016 at 04:00 p.m. to transact the following business:

## ORDINARY BUSINESS:

1. To confirm the minutes of last General Meeting.
2. Consideration of the accounts, balance sheets and the reports of the directors and auditors.
3. Declaration of a dividend.
4. Appointment and fixation of remuneration of auditors.

## SPECIAL BUSINESS:

5. To consider, and if thought fit, to pass the following resolution as special resolution:

*"RESOLVED that the Articles of Association of the Company be amended by adding a new sub-Clause 45(a) after the Clause 45 of the Articles of Association of the Company as under:*

*The provisions and requirements for e-voting as prescribed by the Securities & Exchange Commission of Pakistan for the time being and from time to time shall be deemed to be incorporated in these Articles, notwithstanding the other provisions of these Articles of Association and including anything contradictory therein."*

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

By Order of the Board

Karachi.  
Dated : October 06, 2016

**(MOHAMMAD UMER RAHI)**  
Secretary

## NOTES

1. Closure of share transfer books:  
Share Transfer Books will remain closed and no transfer of shares will be accepted for registration from 23rd October, 2016 to 29th October, 2016 (both days inclusive). Transfers received in order, by Hameed Majeed Associates (Private) Limited, 4th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi up to 22nd October, 2016 will be considered in time for the payment of dividend.
2. Participation in the annual general meeting:  
A member entitled to attend and vote at this meeting is entitled to appoint another member/any other person as his/her proxy to attend and vote.
3. Duly completed instrument of proxy, and the other authority under which it is signed, thereof, must be lodged with the secretary of the company at the company's registered office 312, Cotton Exchange Building, I.I.Chundrigar Road, Karachi at least 48 hours before the time of the meeting.
4. Change in address: Any change of address of members should be immediately notified to the company's share registrars, Hameed Majeed Associates (Private) Limited, 4th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi.
5. The CDC account holders will further have to follow the under-mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

# Notice of Annual General Meeting

- A. For attending the meeting:
- i In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original computerized national identity card (CNIC) or original 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 at the time of the meeting.
- B. For appointing proxies:
- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form accordingly.
  - ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC number shall be mentioned on the form.
  - iii) Attested copies of CNIC or the passport.
  - iv) The proxy shall produce his/her original CNIC or original passport at the time of meeting.
  - v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted along with proxy form to the company.
6. In accordance with the notification of the Securities and Exchange Commission of Pakistan, SRO 831(1)2013 dated July 05, 2012 dividend warrants should bear CNIC number of the registered member or the authorized person, except in case of minor(s) and corporate members. Accordingly, members who have not yet submitted copy of their valid CNIC/NTN (in case of corporate entities) are requested to submit the same to the Company, with members' folio number mentioned thereon for updating record.
7. As per the directions to all Listed Companies by SECP vide Letter No.SM/CDC 2008 dated April 05, 2013, all shareholders and the Company are encouraged to put in place an effective arrangement for Payment of Cash Dividend Electronically (e-Dividend) through mutual co-operation. For this purpose, the members are requested to provide Dividend Mandate including Name, Bank Account Number, Bank and Respective Branch Address to the Company in order to adhere the envisaged guidelines.
8. (I) Pursuant to the provisions of the Finance Act 2016 effective July 1, 2016, the rates of deduction of income tax from dividend payments under the Income Tax Ordinance have been revised as follows:
1. Rate of tax deduction for filer of income tax return 12.5%
  2. Rate of tax deduction for non-filers of income tax return 20%
- To enable the Company to make tax deduction on the amount of cash dividend @ 12.50% instead of 20%, shareholders whose names are not entered into the Active Taxpayers List (ATL) provided on the website of FBR, despite the fact that they are filers, are advised to make sure that their names are entered in ATL, otherwise tax on their cash dividend will be deducted @ 20% instead of 12.5%.
- (ii) Further, according to clarification received from Federal Board of Revenue (FBR), with-holding tax will be determined separately on 'Filer/Non-Filer' status of Principal shareholder as well as joint-holder (s) based on their shareholding proportions, in case of joint accounts. In this regard all shareholders who hold shares jointly are requested to provide shareholding proportions of Principal shareholder and Joint-holder(s) in respect of shares held by them to our Share Registrar, in writing as follows:

# Notice of Annual General Meeting

Company Name	Folio / CDS Account #	Total Shares	Principal Share Holder		Joint Holder	
			Name and CNIC #	Share Holding Proportions (No of Shares)	Name and CNIC #	Share Holding Proportions (No of Shares)

The required information must reach our Share Registrar within 10 days of this notice, otherwise it will be assumed that the shares are equally held by Principal shareholder and Joint Holder(s).

(iii) The corporate shareholders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical shareholders should send a copy of their NTN certificate to the Company or, Hameed Majeed Associates (Private) Limited. The shareholders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers.

## STATEMENT OF MATERIAL FACTS CONCERNING SPECIAL BUSINESS PURSUANT TO SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the Special Business, given in agenda item Nos.5 of the Notice will be considered to be passed by the members. The purpose of the Statement is to set forth the material facts concerning such Special Business.

### Agenda item No.5 of the Notice – Amendment/change in Articles of Association of the Company

To give effect to the Companies (E-Voting) Regulation 2016, shareholders' approval is being sought to amend the Articles of Association of the Company to enable e-voting. The Board of Directors have recommended to the members to approve and adopt amendment/change in Articles of Association of the Company by inserting a new sub-Clause 45 (a) after the Clause 45 of the Articles of Association of the Company.

Subject to approval of the members the proposed resolution will be considered to be passed by the members as a special resolution.



## Directors' Report

The Directors of the company have pleasure in presenting their report along with audited financial statements of the company for the year ended June 30, 2016.

### PERFORMANCE OF THE COMPANY

The profitability of the Company has decreased as compared to last year due to reduced sale rates and increase in cost of production. During the year, your Company achieved sales of Rs. 3.221 billion as compared to Rs. 4.007 billion in the last year. The gross profit as a percentage of sales stood at 10.38% against 10.56% of the corresponding period. The Company managed to achieve pre-tax profit of Rs. 170.399 million against Rs. 182.379 in the last year.

### FINANCIAL HIGHLIGHTS

	2016 Rs. (000)	2015 Rs. (000)
Sales – net	3,221,147	4,007,150
Gross Profit	334,415	423,488
Profit from Operations	213,000	275,876
Finance Cost	110,637	156,079
Pre Tax Profit	170,399	182,379
After Tax Profit	121,897	142,722

### APPROPRIATION OF PROFITS

The Board of Directors of the Company has recommended Cash Dividend ..... (2015: 50%)

### EARNING PER SHARE

The earnings per share for the year ended June 30, 2016 is Rs. 11.84 as compared to Rs.13.87 of the last year.

### FUTURE OUTLOOK

Textile industry in Pakistan is expected to remain under pressure due to the sluggish demand, both in local and international markets and high cost of doing business. Drop in local cotton crop coupled with high rates of taxes and duties significantly rendered textile exports uncompetitive in the world market.

In this situation, the business environment of textile sector will continue to remain challenging in future also until the Government takes remedial steps for revival of the industry.

In spite of these challenging conditions, your management is making every effort to improve operational efficiency and optimize cost structure to enhance shareholder value.

### STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

The Board of Directors periodically reviews the Company's strategic direction. Business plans and targets are



## Directors' Report

set by the Chief Executive and reviewed by the Board. The Board is committed to maintain a high standard of corporate governance. The Board has reviewed the Code of Corporate Governance and confirms that:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. The company has maintained proper books of account.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control, which was in place, is being continuously reviewed by the internal audit and other such procedures. The process of review and monitoring will continue with the object to improve it further.
6. All liabilities with regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as debt the same is disclosed as contingent liabilities in the notes to the financial statements.
7. There is no doubt about the Company's ability to continue as a going concern.
8. There has been no material departure from the best practices of corporate governance, as detailed in listing regulations.
9. The Company operates unfunded gratuity scheme for permanent employees and provision has been made in the financial statements accordingly.
10. The board of directors in compliance with the Code of Corporate Governance has established Audit and Human Resource & Remuneration committees, the names of their members are given in the Company's profile.
11. Operating and financial data and key ratios of six years are annexed.
12. No trades in the shares of the Company were carried out by the Directors, Chief Executive Officer, and Chief Financial Officer, Company Secretary, their spouses and minor children:
13. During the year, four (4) meetings of the Board of Directors were held. Attendance by each Director is as follows:

Mr. Muhammad Abdullah	=4=
Mr. Shayan Abdullah	=4=
Mr. Amer Abdullah	=2=
Mr. Yousuf Abdullah	=2=
Mr. Nabeel Abdullah	=4=
Mr. Muhammad Yamin	=4=
Mr. Asif Elahi	=4=

## Directors' Report

14. During the year four (4) meetings of the Audit Committee were held. Attendance by each member is as follows:

Mr. Amer Abdullah	=2=
Mr. Nabeel Abdullah	=4=
Mr. Asif Elahi	=4=

15. During the year one meeting of the Human Resource and Remuneration Committee was held and attended by all the members.

16. 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.

### PATTERN OF SHARE HOLDING

The pattern of shareholding of the company as at June 30, 2016 is annexed. The statement is prepared in accordance with the Code of Corporate Governance and the Companies Ordinance, 1984.

### AUDITORS

The present Auditors Deloitte Yousuf Adil, Chartered Accountants retire and being eligible offer themselves for re-appointment. Audit committee and Board of Directors have also recommended their appointment as Auditor for the year ending June 30, 2017.

### ACKNOWLEDGEMENTS

The Management would like to place on record its appreciation for the support of the Shareholders, Bankers, Suppliers and the dedication and hard work of the Staff and Workers.

For and on behalf of the Board of Directors

Lahore:  
Dated: October 06, 2016

**Shayan Abdullah**  
Chief Executive

## Six Years Growth at a Glance

Rupees in million

		2016	2015	2014	2013	2012	2011
Sales		3,221.147	4,007.150	4,243.955	3,853.608	2,557.935	2,613.864
Gross Profit		334.415	423.488	417.286	637.167	367.916	737.760
Profit Before Tax		170.399	182.379	143.610	350.982	104.472	503.164
Profit After Tax		121.897	142.722	125.558	308.875	71.803	476.540
Share Capital		102.920	102.920	102.920	102.920	102.920	102.920
Shareholder's Equity		1,963.242	1,917.077	1,806.886	1,629.332	1,298.985	1,214.390
Fixed Assets		1,465.532	1,483.822	1,436.170	1,201.244	966.777	751.621
Total Assets		3,546.416	3,730.857	4,203.199	3,281.305	2,601.956	2,400.897
DIVIDEND							
Cash	%	50.00	50.00	15.00	20.00	12.50	25.00
RATIOS:							
Profitability	%						
Gross Profit		10.38	10.57	9.83	16.53	14.38	28.22
Profit Before Tax		5.29	4.55	3.38	9.11	4.08	19.25
Profit After Tax		3.78	3.56	2.96	8.02	2.81	18.23
Return To Shareholders							
R.O.E-Before Tax		8.68	9.51	7.95	21.54	8.05	41.43
R.O.E-After Tax		6.21	7.44	6.95	18.96	5.53	39.24
EPS	Rupees	11.84	13.87	12.20	30.01	6.98	46.30
Activity	Times						
Sales To Total Assets		0.91	1.07	1.01	1.17	0.98	1.09
Sales To Fixed Assets		2.20	2.70	2.96	3.21	2.65	3.48
Liquidity / Leverage							
Current Ratio		1.01	0.94	0.96	1.08	1.04	1.23
Debt Equity Ratio		0.61	0.72	1.08	0.79	0.79	0.78
Total Liabilities To Equity		0.81	0.95	1.33	1.01	1.00	0.98
Break up Value of Shares	Rupees	190.75	186.27	175.56	158.31	126.21	117.99

# Review Report to the Members

## On Statement of Compliance with Code of Corporate Governance

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **RELIANCE COTTON SPINNING MILLS LIMITED** (the Company), for the year ended June 30, 2016, to comply with the Regulations of the Pakistan 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 part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal controls covers all risks and controls, or to form an opinion on the effectiveness of such 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 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 approval of 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 June 30, 2016.

Lahore :

Dated : October 06, 2016

**Deloitte Yousuf Adil**

Chartered Accountants

Engagement Partner:

Rana M Usman Khan

# Statement of Compliance

## With the Code of Corporate Governance

Name of company: **Reliance Cotton Spinning Mills Limited** (the Company ) year ended June 30, 2016.

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulations of Pakistan Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

Category	Names
Independent Director	Mr. Asif Elahi
Executive Director	Mr. Shayan Abdullah
Non-Executive Directors	Mr. Mohammad Abdullah Mr. Amer Abdullah Mr. Yousuf Abdullah Mr. Nabeel Abdullah Mr. Mohammad Yamin

\* The independent director meets the criteria of independence under clause 519.1(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on 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 Broker of a Stock Exchange, has been declared as a defaulter by that Stock Exchange..
4. During the year no casual vacancy occurred in the board of directors.
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 power 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.
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 board met at least once in every quarter. Written notice 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. Four Directors of the Company are exempted from the requirement of directors' training program, two of them have obtained training from Institute of Cost and Management Accountants of Pakistan (ICMAP), and one Director from Institute of Chartered Accountants of Pakistan (ICAP).

# Statement of Compliance

## With the Code of Corporate Governance

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

For and on behalf of the Board of Directors

Lahore:  
Dated: October 06, 2016

**Shayan Abdullah**  
Chief Executive

## Auditors' Report to the Members

We have audited the annexed balance sheet of **Reliance Cotton Spinning Mills Limited** (the Company) as at June 30, 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied,
  - (ii) the expenditure incurred during the year was for the purpose of Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming parts thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and, respectively give a true and fair view of the state of the Company's affairs as at June 30, 2016 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.

Lahore :  
Dated : October 06, 2016

**Deloitte Yousuf Adil**  
Chartered Accountants  
Engagement Partner:  
Rana M Usman Khan



# Balance Sheet as at June 30, 2016

		2016	2015
	Note	Rupees	Rupees
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	1,465,532,289	1,483,821,749
Long term investments	5	665,842,536	627,402,950
Long term deposits		8,987,690	9,129,670
		<b>2,140,362,515</b>	2,120,354,369
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	6	28,333,642	41,109,792
Stock-in-trade	7	709,275,260	853,124,362
Trade debts	8	351,018,083	434,038,719
Loans and advances	9	13,067,252	5,406,078
Deposits and short term prepayments	10	1,189,466	1,348,780
Other receivables	11	13,034,956	13,476,572
Advance income tax		44,634,182	65,924,143
Tax refunds due from the Government	12	224,196,872	188,395,154
Cash and bank balances	13	21,304,064	7,679,271
		<b>1,406,053,777</b>	1,610,502,871
		<b>3,546,416,292</b>	3,730,857,240
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
12,000,000 (2015: 12,000,000) ordinary shares of Rs. 10 each		<b>120,000,000</b>	120,000,000
Issued, subscribed and paid up capital	14	102,920,000	102,920,000
General reserve		130,000,000	130,000,000
Capital reserves		122,553,168	144,013,053
Un-appropriated profit		1,607,769,051	1,540,143,805
		<b>1,963,242,219</b>	1,917,076,858
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	15	58,550,000	-
Deferred liabilities			
- employee benefits - unfunded	16	73,392,461	62,258,658
- deferred tax liability	17	57,295,826	43,034,414
		<b>189,238,287</b>	105,293,072
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	207,426,044	278,733,515
Mark-up accrued	19	12,336,102	18,119,425
Short term borrowings	20	1,140,246,733	1,342,194,285
Current portion of long term financing	15	-	33,333,333
Provision for taxation		33,926,907	36,106,752
		<b>1,393,935,786</b>	1,708,487,310
<b>CONTINGENCIES AND COMMITMENTS</b>			
	21	<b>3,546,416,292</b>	3,730,857,240

The annexed notes from 1 to 43 form an integral part of these financial statements.

Karachi:  
Dated: October 06, 2016

SHAYAN ABDULLAH  
CHIEF EXECUTIVE

MOHAMMAD ABDULLAH  
DIRECTOR

# Profit and Loss Account

For the year ended June 30, 2016

	Note	2016 Rupees	2015
Sales	22	3,221,146,642	4,007,149,572
Cost of sales	23	(2,886,731,329)	(3,583,661,769)
<b>Gross profit</b>		<b>334,415,313</b>	<b>423,487,803</b>
Distribution cost	24	(72,569,164)	(98,346,119)
Administrative expenses	25	(44,235,800)	(42,766,682)
Other income	26	4,396,139	4,075,681
Other operating expenses	27	(9,005,514)	(10,574,661)
		(121,414,339)	(147,611,781)
		<b>213,000,974</b>	<b>275,876,022</b>
Finance cost	28	(110,637,339)	(156,079,216)
Share of profit of associates		68,035,526	62,582,594
<b>Profit before taxation</b>		<b>170,399,161</b>	<b>182,379,400</b>
Provision for taxation	29	(48,501,809)	(39,657,052)
<b>Profit for the year</b>		<b>121,897,352</b>	<b>142,722,348</b>
<b>Earnings per share - basic and diluted</b>	30	<b>11.84</b>	<b>13.87</b>

The annexed notes from 1 to 43 form an integral part of these financial statements.

Karachi:  
Dated: October 06, 2016

SHAYAN ABDULLAH  
CHIEF EXECUTIVE

MOHAMMAD ABDULLAH  
DIRECTOR

# Statement of Comprehensive Income

For the year ended June 30, 2016

	Note	2016 Rupees	2015 Rupees
<b>Profit for the year</b>		<b>121,897,352</b>	<b>142,722,348</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Share in associates' unrealized loss on available for sale investments - net		(18,938,382)	(10,017,863)
Share in associates' unrealized gain on hedging instruments		128,192	(158,884)
Share in associates' remeasurement of post retirement benefits obligation loss		(29,460)	(783,880)
		(18,839,650)	(10,960,627)
<b>Items that will not be reclassified subsequently to profit and loss</b>			
Remeasurement of post retirement benefits obligation	16.6	(2,812,106)	(7,285,661)
		(21,651,756)	(18,246,288)
<b>Total comprehensive income for the year</b>		<b>100,245,596</b>	<b>124,476,060</b>

The annexed notes from 1 to 43 form an integral part of these financial statements.

Karachi:  
Dated: October 06, 2016

**SHAYAN ABDULLAH**  
CHIEF EXECUTIVE

**MOHAMMAD ABDULLAH**  
DIRECTOR

# Cash Flow Statement

For the year ended June 30, 2016

	Note	2016	2015
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		170,399,161	182,379,400
Adjustments for:			
Depreciation on property, plant and equipment		132,841,331	131,404,718
Provision for employee benefits		25,797,141	18,937,242
Gain on disposal of property, plant and equipment		(1,899,108)	(831,469)
Finance cost		110,637,339	156,079,216
Share of profit of associates		(68,035,526)	(62,582,594)
		369,740,338	425,386,513
<b>Working capital changes</b>			
(Increase)/decrease in current assets			
Stores, spare parts and loose tools		12,776,150	(12,001,217)
Stock-in-trade		143,849,102	609,644,075
Trade debts		83,020,636	23,071,267
Loans and advances		(7,661,174)	5,681,928
Other financial asset		-	3,024,125
Deposit and short term prepayments		159,314	(717,910)
Other receivables		441,616	(2,308,301)
Increase/(decrease) in current liabilities			
Trade and other payables		(71,388,719)	(18,626,254)
		161,196,925	607,767,713
<b>Cash generated from operations</b>		530,937,263	1,033,154,226
Dividends paid		(51,378,751)	(15,420,117)
Employee benefits paid		(17,475,444)	(20,027,924)
Finance cost paid		(116,420,662)	(170,106,382)
Sales tax paid		(6,297,819)	(32,863,714)
Income taxes paid		(44,634,180)	(65,917,311)
		(236,206,856)	(304,335,448)
<b>Cash generated from operating activities</b>		294,730,407	728,818,778
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure on property, plant and equipment		(116,048,762)	(180,596,992)
Proceeds from disposal of property, plant and equipment		3,396,000	2,372,100
Proceeds from long term loans		-	57,000
Long term deposits made		141,980	(271,440)
Dividend received		8,136,050	8,257,443
		(104,374,732)	(170,181,889)
<b>Net cash used in investing activities</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long term loan obtain		58,550,000	-
Long term financing repaid		(33,333,333)	(41,666,667)
Short term borrowings - net		(201,947,552)	(529,228,515)
		(176,730,885)	(570,895,182)
<b>Net cash used in financing activities</b>			
<b>Net (decrease)/increase in cash and cash equivalents</b>		13,624,790	(12,258,293)
<b>Cash and cash equivalents at beginning of the year</b>		7,679,274	19,937,567
<b>Cash and cash equivalents at the end of the year</b>		21,304,064	7,679,274

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The annexed notes from 1 to 43 form an integral part of these financial statements.

Karachi:  
Dated: October 06, 2016

**SHAYAN ABDULLAH**  
CHIEF EXECUTIVE

**MOHAMMAD ABDULLAH**  
DIRECTOR

## Statement of Changes in Equity

**For the year ended June 30, 2016**

Share capital	General reserve	Un-appropriated profit	Capital reserves				Sub-total	Total
			Share in associates' unrealized gain on available for sale investments - net	Share in associate's (loss) on hedging instruments	Share in associate's remeasurement of post retirement benefits obligation	Share of items directly recognized in equity by associates		
..... Rupees .....								
102,920,000	130,000,000	1,420,145,118	99,774,934	145,173	(741,688)	54,642,854	153,821,273	1,806,886,391
<b>Balance as at July 01, 2014</b>								
<b>Comprehensive income:</b>								
Profit for the year ended June 30, 2015								
-	-	142,722,348	-	-	-	-	-	142,722,348
-	-	(7,285,661)	(10,017,863)	(158,884)	(783,880)	-	(10,960,627)	(18,246,288)
<b>Total comprehensive income</b>								
-	-	135,436,687	(10,017,863)	(158,884)	(783,880)	-	(10,960,627)	124,476,060
Effects of items directly recognized in equity by associates								
-	-	-	-	-	-	1,152,407	1,152,407	1,152,407
<b>Transactions with owners:</b>								
Final dividend for the year ended June 30, 2014 @ Rs. 1.5 per share								
-	-	(15,438,000)	-	-	-	-	-	(15,438,000)
102,920,000	130,000,000	1,540,143,805	89,757,071	(13,711)	(1,525,568)	55,795,261	144,013,053	1,917,076,858
<b>Balance as at June 30, 2015</b>								
<b>Comprehensive income:</b>								
Profit for the year ended June 30, 2016								
-	-	121,897,352	-	-	-	-	-	121,897,352
-	-	(2,812,106)	(18,938,382)	128,192	(29,460)	-	(18,839,650)	(21,651,756)
<b>Total comprehensive income</b>								
-	-	119,085,246	(18,938,382)	128,192	(29,460)	-	(18,839,650)	100,245,596
Effects of items directly recognized in equity by associates								
-	-	-	-	-	-	(2,620,235)	(2,620,235)	(2,620,235)
<b>Transactions with owners:</b>								
Final dividend for the year ended June 30, 2015 @ Rs. 5 per share								
-	-	(51,460,000)	-	-	-	-	-	-
102,920,000	130,000,000	1,607,769,051	70,818,689	114,481	(1,555,028)	53,175,026	122,553,168	1,963,242,219
<b>Balance as at June 30, 2016</b>								

The annexed notes from 1 to 43 form an integral part of these financial statements.

Karachi:  
Dated: October 06, 2016

**SHAYAN ABDULLAH**  
CHIEF EXECUTIVE

**MOHAMMAD ABDULLAH**  
DIRECTOR

# Notes to the Financial Statements

For the year ended June 30, 2016

## 1 LEGAL STATUS AND OPERATIONS

**1.1** Reliance Cotton Spinning Mills Limited ("the Company") was incorporated in Pakistan on June 13, 1990 as a public limited company under the Companies Ordinance, 1984. The Company is currently listed on Pakistan stock exchange limited. The principal activity of the Company is manufacturing and sale of yarn. The registered office of the Company is situated at 312, Cotton Exchange Building, Karachi and mills are located at Warburton Road, Ferozewattoan, District Sheikhupura, Punjab.

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

## 2 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the provisions of the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Companies Ordinance, 1984 or the directives issued by the SECP differ with the requirements of the IFRS, the requirements of the Companies Ordinance, 1984, and the said directives shall take precedence.

### 2.2 STANDARDS, INTERPRETATION AND AMENDMENT ADOPTED DURING THE YEAR

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

#### 2.2.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2016

**2.2.1.1** The following standards, amendments and interpretations are effective for the year ended June 30, 2016. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures related to IFRS 13.

-IAS 28 (Revised 2011) – Investments in Associates and Joint Venture	Effective from accounting period beginning on or after January 01, 2015
IFRS 10 – Consolidated Financial Statements	Effective from accounting period beginning on or after January 01, 2015
IFRS 11 – Joint Arrangements	Effective from accounting period beginning on or after January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	Effective from accounting period beginning on or after January 01, 2015
IFRS 13 – Fair Value Measurement	Effective from accounting period beginning on or after January 01, 2015
IAS 27 (Revised 2011) – Separate Financial Statements	'Effective from accounting period beginning on or after January 01, 2015

Certain annual improvements have also been made to a number of IFRSs.

# Notes to the Financial Statements

For the year ended June 30, 2016

## **New accounting standards, amendments to published standards and interpretations that are not yet effective.**

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	Effective from accounting period beginning on or after January 01, 2018
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely. Earlier adoption is permitted.
Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception	Effective from accounting period beginning on or after January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' Disclosure initiative	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	Effective from accounting period beginning on or after January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	Effective from accounting period beginning on or after January 01, 2017
Amendments to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' Equity method in separate financial statements	Effective from accounting period beginning on or after January 01, 2016



# Notes to the Financial Statements

For the year ended June 30, 2016

## 2.2.3 Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1	First Time Adoption of International Financial Reporting Standards
- IFRS 9	Financial Instruments
- IFRS 14	Regulatory Deferral Accounts
- IFRS 15	Revenue from Contracts with Customers
- IFRS 16	Leases

## 2.3 Significant Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, and the results of which form the basis for making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### Employee benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries on annual basis.

### Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment, if any.

### Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Convention

These financial statements have been prepared under the historical cost convention modified by:

- financial instruments at fair value
- recognition of certain employee benefits at present value
- investments in associates at equity method

### PRINCIPAL ACCOUNTING POLICIES ADOPTED ARE AS FOLLOWS

# Notes to the Financial Statements

For the year ended June 30, 2016

## 3.1 Property, plant and equipment

Property, plant and equipment except freehold land and capital work-in-progress are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Freehold land, capital work-in-progress and stores held for capital expenditure are stated at cost less accumulated impairment loss, if any. Cost also includes borrowing cost; wherever applicable.

Assets' residual values, if significant, and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

When parts of an item of property, plant and equipment have different useful lives, they are recognized as separate items of property, plant and equipment.

Subsequent costs are recognized as separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to profit and loss account applying the reducing balance method over estimated useful life at the rates specified in Note 4 to these financial statements. In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Gains or losses on disposal of assets, if any, are included in the profit and loss account.

Capital work-in-progress is stated at cost accumulated upto the balance sheet date. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these assets are available for use.

## 3.2 Investments in associates

Associates are entities over which the Company has significant influence, but not control. Investment in associate is accounted for using equity method of accounting. Under the equity method, the investment in associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of profit or loss of the associate after the date of acquisition. The Company's share of the profit or loss of the associate is recognized in the Company's profit or loss account. The carrying amount of the investment in associate is reduced by the amount of distributions received from the associate. The carrying amount is also adjusted by the amount of changes in the Company's proportionate interest in the associate arising from changes in associate's equity that is recognized directly in equity of the Company account.

The carrying amount of investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount and loss, if any, is recognized in profit or loss. When impairment losses subsequently reverse, the carrying amount of the investment is increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

## 3.3 Stores, spare parts and loose tools

These are valued at lower of cost and net realizable value, except for items in transit. Cost is determined on a moving average less allowances for obsolete and slow moving items. Items in transit are valued at invoice values plus other charges incurred thereon up to the balance sheet date.

# Notes to the Financial Statements

For the year ended June 30, 2016

## 3.4 Stock-in-trade

These are valued at the lower of cost and net realizable value, except for items in transit and waste stock. Cost is computed applying the following bases:

Raw material	- weighted average cost.
Work-in-process	- average manufacturing cost.
Finished goods	- average manufacturing cost.

Stock in transit are valued at invoice value plus other charges incurred thereon upto the balance sheet date.

Waste stock are valued at net realizable value.

Average manufacturing cost in relation to work-in-process and finished goods includes cost of direct material, direct labor and a proportion of manufacturing overheads based on normal capacity.

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.

## 3.5 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of carrying amount that would have been determined had no impairment loss been recognized for that asset. Reversal of impairment loss is recognized as income.

## 3.6 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

Financial instruments are initially recorded at fair value on the date a derivative contract is entered into and are re-measured to fair value at subsequent reporting dates.

The gain or loss relating to financial instruments is recognized immediately in the profit and loss account.

Particular recognition methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

## 3.7 Off setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## 3.8 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the period end. Balances considered bad and irrecoverable are written off when identified.

## 3.9 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks.

# Notes to the Financial Statements

For the year ended June 30, 2016

## 3.10 Trade and other payables

Liability for trade and other payables are measured at the fair value of the consideration to be paid in the future for goods and services received.

## 3.11 Financial instruments - hedge arrangements

In certain cases, the Company uses forward foreign exchange contracts (cash flow hedge arrangements) to hedge its risk associated primarily with foreign currency fluctuations.

These contracts (except those having immaterial financial impact) are included in the balance sheet at fair value and any resultant unrealized gain or loss is recognized in the statement of changes in equity, on realization of same is transferred to profit and loss account. The fair value of forward foreign exchange contracts are included in "Other receivables" in case of favorable contracts and "Trade and other payables" in case of unfavorable contracts. The fair values of forward foreign exchange contracts are calculated by reference to current forward foreign exchange rates with similar maturity profiles.

## 3.12 Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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 that asset. 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.

## 3.13 Employee benefits

### Defined benefit plan

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made annually to cover the obligation under the schemes on the basis of actuarial valuation and are charged to profit and loss account for the year. The assumptions are determined by independent actuary.

The amount recognized in the balance sheet represents the present value of defined benefit obligations using the projected unit credit actuarial valuation method. Actuarial gains/ losses arising from the actuarial valuation are recognized immediately and are presented in other comprehensive income. The latest actuarial valuation was carried on June 30, 2016.

Details of the scheme are given in relevant note to the financial statements.

### Compensated absences

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

## 3.14 Provisions

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

## 3.15 Earnings per share

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

# Notes to the Financial Statements

For the year ended June 30, 2016

## 3.16 Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Finance cost is accounted for on an accrual basis and is included in current liabilities to the extent of amount remaining unpaid, if any.

## 3.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Revenue from local sales is recognized when goods are dispatched to customers, export sales are recognized on shipment of goods.

Export rebate is recognized on accrual basis at the time of making the export sales.

Dividend income from investment is recognized when the Company's right to receive dividend is established.

## 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 assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss account of the period in which they are incurred.

## 3.19 Taxation

### Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions available, if any. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

### Deferred

Deferred tax liability is recognized for all taxable temporary differences while deferred tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profits will be available against which such temporary differences and tax losses can be utilized.

The company does not have any temporary difference as its income falls under final tax regime. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" of the Institute of Chartered Accountants of Pakistan. Deferred tax arises on income chargeable received on account of share of profit from associate.

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

## 3.20 Foreign currencies

Transactions in currencies other than Pakistani rupee are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities in that case, the rates contracted for are used.

Gains and losses arising on retranslation are included in profit or loss for the year.

# Notes to the Financial Statements

For the year ended June 30, 2016

**3.21 Dividend distribution**

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

**3.22 Related party transactions**

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

## Notes to the Financial Statements

For the year ended June 30, 2016

#### 4 PROPERTY, PLANT AND EQUIPMENT

##### 4.1 At June 30, 2016

Particulars	As at July 01, 2015	Additions	Transfers	Disposals	As at June 30, 2016	As at July 01, 2015	Charge for the year	Disposals	As at June 30, 2016	Book value As at June 30, 2016	Annual depreciation rate %
Rupees											
<b>Operating fixed assets</b>											
Freehold land	37,394,424	4,822,330	-	-	42,216,754	-	-	-	-	42,216,754	-
Buildings on freehold land:											
Residential	121,379,248	-	-	-	121,379,248	37,382,425	4,199,841	-	41,582,266	79,796,982	5
Factory	683,681,688	5,732,600	48,509,433	-	737,923,721	218,067,568	50,247,391	-	268,314,959	469,608,762	10
Plant and machinery	1,412,418,658	29,012,923	-	3,972,076	1,437,459,505	734,228,316	69,695,249	3,415,707	800,507,858	636,951,647	10
Furniture and fittings	1,345,627	1,678,720	-	-	3,024,347	1,005,115	73,077	-	1,078,192	1,946,155	10
Vehicles	32,688,728	3,652,190	2,566,210	3,670,872	35,236,256	16,530,322	3,852,731	2,730,350	17,652,703	17,583,553	20
Office equipment	1,597,499	104,001	2,525,557	-	4,227,057	733,108	276,722	-	1,009,830	3,217,227	10
Electric installation	72,308,379	-	-	-	72,308,379	30,099,208	4,220,917	-	34,320,125	37,988,254	10
Electric equipment	195,500	-	-	-	195,500	177,550	1,795	-	179,345	16,155	10
Computers	3,107,398	138,554	-	-	3,245,952	2,233,524	273,608	-	2,507,132	738,820	30
<b>Capital work-in-progress</b>											
Building - civil work	63,006,368	6,874,669	(51,034,990)	-	18,846,047	-	-	-	-	18,846,047	
Plant and machinery	14,131,500	59,566,565	-	-	73,698,065	-	-	-	-	73,698,065	
Electric installation	80,523,868	1,900,000	-	-	82,423,868	-	-	-	-	82,423,868	
Vehicles	500,000	2,566,210	(2,566,210)	-	500,000	-	-	-	-	500,000	
	158,161,736	70,907,444	(53,601,200)	-	175,467,980	-	-	-	-	175,467,980	
<b>Total</b>	<b>2,524,278,885</b>	<b>116,048,762</b>	<b>-</b>	<b>7,642,948</b>	<b>2,632,684,699</b>	<b>1,040,457,136</b>	<b>132,841,331</b>	<b>6,146,057</b>	<b>1,167,152,410</b>	<b>1,465,532,289</b>	

4.1.1 Depreciation charge for the year has been charged to cost of sales.

## 4.1.2 Disposal of property, plant and equipment

Particulars	Cost	Accumulated depreciation	Book value	Sales proceeds	Gain	Mode of disposal	Particulars of buyer
Rupees							
<b>Plant and machinery</b>							
Cross roll cards	2,736,273	2,463,943	272,330	1,000,000	727,670	Negotiations	The Lahore Textile & General Mills Limited
Blow room machinery	1,235,803	951,763	284,040	600,000	315,960	Negotiations	Cotton Yarn (Pvt) LIMITED
<b>Vehicle</b>							
Honda VTI	1,845,410	1,310,247	535,163	800,000	264,837	Negotiations	Muhammad Shabb
Coure	489,003	425,193	63,810	305,000	241,190	Negotiations	Khurram Intiaz
Toyota XLI	1,270,830	946,365	324,465	670,000	345,535	Negotiations	Khurram Intiaz
Honda CD 70	65,629	48,545	17,084	21,000	3,916	Negotiations	Ziaullah
<b>2016</b>	<b>7,642,948</b>	<b>6,146,056</b>	<b>1,496,892</b>	<b>3,396,000</b>	<b>1,899,108</b>		
<b>2015</b>	<b>8,967,806</b>	<b>7,427,175</b>	<b>1,540,631</b>	<b>2,732,100</b>	<b>831,469</b>		



## Notes to the Financial Statements

**For the year ended June 30, 2016**

	At June 30, 2015	At June 30, 2014	Particulars	As at July 01, 2014	Additions	Transfers	Disposals	As at June 30, 2015	As at July 01, 2014	Charge for the year	Disposals	As at June 30, 2015	Book value As at June 30, 2015	Annual depreciation rate %
								Rupees						
<b>Operating fixed assets</b>														
Freehold land	19,404,424	17,990,000	-	-	-	-	-	37,394,424	-	-	-	-	37,394,424	-
Buildings on freehold land:														
Residential	121,379,248	-	-	-	-	-	-	121,379,248	32,961,540	4,420,885	-	37,382,425	83,996,823	5
Factory	601,833,850	-	81,847,838	-	-	-	-	683,681,688	170,259,415	47,808,153	-	218,067,568	465,614,120	10
Plant and machinery	1,357,960,004	-	61,988,350	-	7,529,696	-	7,529,696	1,412,418,658	669,587,450	70,976,736	6,335,870	734,228,316	678,190,342	10
Furniture and fittings	1,345,627	-	-	-	-	-	-	1,345,627	967,280	37,835	-	1,005,115	340,512	10
Vehicles	26,772,777	-	7,354,061	-	1,438,110	-	1,438,110	32,688,728	14,563,914	3,057,713	1,091,305	16,530,322	16,158,406	20
Office equipment	1,597,499	-	-	-	-	-	-	1,597,499	637,064	96,044	-	733,108	864,391	10
Electric installation	72,308,379	-	-	-	-	-	-	72,308,379	25,409,300	4,689,908	-	30,099,208	42,209,171	10
Electric equipment	195,500	-	-	-	-	-	-	195,500	175,556	1,997	-	177,553	17,947	10
Computers	2,914,899	192,502	-	-	-	-	-	3,107,401	1,918,077	315,447	-	2,233,524	873,877	30
	2,205,712,207	18,182,502	151,190,249	8,967,806	2,366,117,152	916,479,596	131,404,718	7,427,175	1,040,457,139	1,325,660,013				
<b>Capital work-in-progress</b>														
Building - civil work	94,973,364	49,880,842	(81,847,838)	-	-	-	-	63,006,368	-	-	-	-	63,006,368	
Plant and machinery	15,204,928	60,914,922	(61,988,350)	-	-	-	-	14,131,500	-	-	-	-	14,131,500	
Electric installation	35,477,200	45,046,688	-	-	-	-	-	80,523,868	-	-	-	-	80,523,868	
Vehicles	1,282,000	6,572,061	(7,354,061)	-	-	-	-	500,000	-	-	-	-	500,000	
	146,937,492	162,414,493	(151,190,249)	-	-	-	-	158,161,736	-	-	-	-	158,161,736	
<b>Total</b>	2,352,649,699	180,596,995	-	-	8,967,806	2,524,278,888	131,404,718	7,427,175	1,040,457,139	1,483,821,749				

# Notes to the Financial Statements

For the year ended June 30, 2016

			2016	2015
			----- Rupees -----	
<b>5</b>	<b>LONG TERM INVESTMENTS</b>	<b>Note</b>		
	<b>Investments in associates - at equity method:</b>			
	<b>Quoted:</b>			
	Sapphire Fibres Limited	5.2	373,268,465	351,680,520
	Sapphire Textile Mills Limited	5.3	78,296,246	73,008,307
	SFL Limited	5.4	59,312,429	58,165,846
	<b>Un quoted:</b>			
	Sapphire Finishing Mills Limited	5.5	67,792,023	58,547,645
	Sapphire Holding Limited	5.6	31,235,792	31,744,979
	Sapphire Power Generation Limited	5.7	55,937,581	54,255,653
			<b>665,842,536</b>	<b>627,402,950</b>
<b>5.1</b>	The existence of significant influence by the Company is evidenced by the representation on the board of directors of associated companies.			
<b>5.2</b>	<b>Investment in Sapphire Fibres Limited</b>			
	393,697 (2015: 393,697) ordinary shares of Rs. 10 each - cost		41,956,482	41,956,482
	Share of post acquisition profit items directly recognized in equity		335,248,953	314,645,251
	Dividend received		(3,936,970)	(4,921,213)
			<b>373,268,465</b>	<b>351,680,520</b>
	The financial year of Sapphire Fibres Limited ends on June 30. The latest un-audited consolidated financial results of Sapphire Fibres Limited as of June 30, 2016 have been used for the purpose of application of equity method. Summarized consolidated financial information of Sapphire Fibres Limited is set out below:			
	Total assets		43,099,769,028	41,138,445,641
	Total liabilities		21,580,999,210	20,999,479,644
	Net assets		21,518,769,818	20,138,965,997
	Revenue		25,220,358,298	32,194,204,224
	Profit for the year		2,765,234,653	2,627,609,188
	Percentage of ownership		1.9997%	1.9997%
	<b>Reconciliation to carrying amount</b>			
	Net assets		21,518,769,818	20,138,965,997
	Non-controlling interest		(2,852,834,072)	(2,552,572,810)
			18,665,935,746	17,586,393,187
	Percentage of ownership		1.9997%	1.9997%
	Carrying value		373,268,465	351,680,520
<b>5.3</b>	<b>Investment in Sapphire Textile Mills Limited</b>			
	100,223 (2015: 100,223) ordinary shares of Rs. 10 each - cost		8,114,578	8,114,578
	Share of post acquisition profit and items directly recognized in equity		71,183,898	65,895,959
	Dividend received		(1,002,230)	(1,002,230)
			<b>78,296,246</b>	<b>73,008,307</b>
	The financial year of Sapphire Textile Mills Limited ends on June 30. The latest un-audited consolidated financial results of Sapphire Textile Mills Limited as of June 30, 2016 have been used for the purpose of application of equity method. Summarized consolidated financial information of Sapphire Textile Mills Limited is set out below:			
	Total assets		44,813,397,489	36,478,851,412
	Total liabilities		27,980,882,159	21,036,958,486
	Net assets		16,832,515,330	15,441,892,926
	Revenue		26,048,565,222	23,322,851,055
	Profit for the year		2,191,112,659	1,009,589,900
	Percentage of ownership		0.4990%	0.4990%

# Notes to the Financial Statements

For the year ended June 30, 2016

	2016	2015
	----- Rupees -----	
<b>Reconciliation to carrying amount</b>		
Net assets	16,832,515,330	15,441,892,926
Non-controlling interest	(1,143,157,875)	(812,156,782)
	<b>15,689,357,455</b>	<b>14,629,736,144</b>
Percentage of ownership	0.4990%	0.4990%
Carrying value	<b>78,296,246</b>	<b>73,008,307</b>

## 5.4 Investment in SFL Limited

401,570 (2015: 401,570) ordinary shares of Rs. 10 each - cost	2,439,475	2,439,475
Share of post acquisition profit	57,876,880	55,726,371
Dividend received	(1,003,926)	-
	<b>59,312,429</b>	<b>58,165,846</b>

The financial year of SFL Limited ends on June 30. The latest unaudited consolidated financial results of SFL Limited as of June 30, 2016 have been used for the purpose of application of equity method. Summarized consolidated financial information of SFL Limited is set out below:

Total assets	2,978,403,376	2,920,403,668
Total liabilities	10,869,173	10,235,615
Net assets	<b>2,967,534,203</b>	<b>2,910,168,053</b>
Revenue	2,235,176	4,510,801
Profit for the year	<b>101,243,703</b>	<b>173,931,086</b>
Percentage of ownership	1.9987%	1.9987%

### Reconciliation to carrying amount

Net assets	2,967,534,203	2,910,168,053
Non-controlling interest	-	-
	<b>2,967,534,203</b>	<b>2,910,168,053</b>
Percentage of ownership	1.9987%	1.9987%
Carrying value	<b>59,312,429</b>	<b>58,165,846</b>

## 5.5 Investment in Sapphire Finishing Mills Limited

1,556,000 (2015: 1,556,000) ordinary shares of Rs. 10 each - cost	16,509,160	16,509,160
Share of post acquisition profit and items directly recognized in equity	53,150,063	44,372,485
Dividend received	(1,867,200)	(2,334,000)
	<b>67,792,023</b>	<b>58,547,645</b>

The financial year of Sapphire Finishing Mills Limited ends on June 30. Financial results of Sapphire Finishing Mills Limited as of June 30, 2016 are used for the purpose of application of equity method, which are based on the un-audited management accounts. Summarized consolidated financial information of Sapphire Finishing Mills Limited is set out below:

Total assets	10,567,287,685	8,753,699,389
Total liabilities	6,566,766,357	5,300,864,260
Net assets	<b>4,000,521,328</b>	<b>3,452,835,129</b>
Revenue	14,048,335,404	13,157,408,877
Profit for the year	<b>601,789,943</b>	<b>561,063,307</b>
Percentage of ownership	1.6913%	1.6913%

### Reconciliation to carrying amount

Net assets	4,000,521,328	3,452,835,129
Non-controlling interest	-	-
	<b>4,000,521,328</b>	<b>3,452,835,129</b>
Percentage of ownership	1.6913%	1.6913%
Carrying value	<b>67,792,023</b>	<b>58,547,645</b>

# Notes to the Financial Statements

For the year ended June 30, 2016

	2016	2015
	----- Rupees -----	
<b>5.6 Investment in Sapphire Holding Limited</b>		
100,223 (2015: 100,223) ordinary shares of Rs. 10 each - cost	524,950	524,950
Share of post acquisition profit	31,036,566	31,220,029
Dividend received	(325,724)	-
	<b>31,235,792</b>	<b>31,744,979</b>

The financial year of Sapphire Holding Limited ends on June 30. The latest unaudited consolidated financial results of Sapphire Holding Limited as of June 30, 2016 have been used for the purpose of application of equity method. Summarized consolidated financial information of Sapphire Holding Limited is set out below:

Total assets	6,695,132,301	6,392,535,495
Total liabilities	432,442,398	224,108,706
Net assets	6,262,689,903	6,168,426,789
Revenue	8,694,117	10,402,113
Profit for the year	274,071,911	520,094,558
Percentage of ownership	0.4986%	0.4986%

## Reconciliation to carrying amount

Net assets	6,262,689,903	6,168,426,789
Non-controlling interest	-	-
	<b>6,262,689,903</b>	<b>6,168,426,789</b>
Percentage of ownership	0.4986%	0.4986%
Carrying value	<b>31,235,792</b>	<b>31,744,979</b>

<b>5.7 Investment in Sapphire Power Generation Limited</b>		
555,000 (2015: 555,000) ordinary shares of Rs. 10 each - cost	19,425,000	19,425,000
Share of post acquisition profit	36,512,581	34,830,653
	<b>55,937,581</b>	<b>54,255,653</b>

The financial year of Sapphire Power Generation Limited ends on June 30. The latest unaudited consolidated financial results of Sapphire Power Generation Limited as of June 30, 2016 have been used for the purpose of application of equity method. Summarized consolidated financial information of Sapphire Power Generation Limited is set out below:

Total assets	1,807,693,170	1,838,109,803
Total liabilities	192,635,092	271,613,321
Net assets	1,615,058,078	1,566,496,482
Revenue	1,594,592,483	990,082,431
Profit for the year	97,924,874	72,490,681
Percentage of ownership	3.4635%	3.4635%

## Reconciliation to carrying amount

Net assets	1,615,058,078	1,566,496,482
Non-controlling interest	-	-
	<b>1,615,058,078</b>	<b>1,566,496,482</b>
Percentage of ownership	3.4635%	3.4635%
Carrying value	<b>55,937,581</b>	<b>54,255,653</b>

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016	2015
		----- Rupees -----	
<b>6 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		<b>10,890,863</b>	11,010,386
Spare parts	6.1	<b>17,417,974</b>	30,065,528
Loose tools		<b>24,805</b>	33,878
		<b>28,333,642</b>	<b>41,109,792</b>
<b>6.1</b>	These include spare parts in transit amounting to Rs. 1.5 million (2015: Rs. 5.935 million).		
<b>7 STOCK-IN-TRADE</b>			
Raw material	7.1	<b>485,878,017</b>	671,712,501
Work-in-process	7.2	<b>128,561,008</b>	120,307,562
Finished goods		<b>86,488,401</b>	55,551,609
Waste		<b>8,347,834</b>	5,552,690
		<b>709,275,260</b>	<b>853,124,362</b>
<b>7.1</b>	Raw material include stock in transit of Rs. 101.96 million (2015: Rs. 112.051 million). It also includes stock of Rs. Nil (2015: Rs. 395.535 million) being carried out at net realizable value. The amount charged to cost of sales in respect of written down inventories is Nil (2015: Rs. 54.911 million).		
<b>7.2</b>	It also includes stock of Rs. Nil (2015: Rs. 96.220 million) being carried out at net realizable value. The amount charged to cost of sales in respect of written down inventories is Rs. Nil (2015: Rs. 3.548 million).		
<b>7.3</b>	It also includes stock of Rs. Nil (2015: Rs. 15.169 million) being carried out at net realizable value. The amount charged to cost of sales in respect of written down inventories is Rs. Nil (2015: Rs. 2.771 million).		
<b>8 TRADE DEBTS</b>			
<b>Considered good:</b>			
Foreign			
Secured	8.1	<b>16,544,826</b>	43,578,452
Unsecured		<b>47,867,397</b>	57,156,378
		<b>64,412,223</b>	100,734,830
Local			
Secured	8.1	<b>2,630,637</b>	-
Unsecured - considered good	8.3	<b>283,975,223</b>	333,303,889
	8.2	<b>286,605,860</b>	333,303,889
		<b>351,018,083</b>	434,038,719
		<b>351,018,083</b>	<b>434,038,719</b>

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016	2015																								
		----- Rupees -----																									
<b>8.1</b>	These are secured against letters of credit.																										
<b>8.2</b>	Local trade debts include Rs. 196.267 million (2015: Rs. 208.973 million) receivable against indirect export sales.																										
<b>8.3</b>	These includes amount due from following associated companies:																										
		<table> <tr> <th>Up to 1 month</th><th>1 to 6 months</th><th>Over 6 months</th><th>Total</th></tr> <tr> <td colspan="4">-----Rupees-----</td></tr> <tr> <td>Sapphire Textile Mills Limited</td><td>2,635,057</td><td>-</td><td>2,635,057</td></tr> <tr> <td>Sapphire Fibres Limited</td><td>15,193,160</td><td>29,440</td><td>15,222,600</td></tr> <tr> <td>Diamond Fabrics Limited</td><td>6,190,737</td><td>500,580</td><td>6,691,317</td></tr> <tr> <td></td><td><u>24,018,954</u></td><td><u>530,020</u></td><td><u>24,548,974</u></td></tr> </table>	Up to 1 month	1 to 6 months	Over 6 months	Total	-----Rupees-----				Sapphire Textile Mills Limited	2,635,057	-	2,635,057	Sapphire Fibres Limited	15,193,160	29,440	15,222,600	Diamond Fabrics Limited	6,190,737	500,580	6,691,317		<u>24,018,954</u>	<u>530,020</u>	<u>24,548,974</u>	
Up to 1 month	1 to 6 months	Over 6 months	Total																								
-----Rupees-----																											
Sapphire Textile Mills Limited	2,635,057	-	2,635,057																								
Sapphire Fibres Limited	15,193,160	29,440	15,222,600																								
Diamond Fabrics Limited	6,190,737	500,580	6,691,317																								
	<u>24,018,954</u>	<u>530,020</u>	<u>24,548,974</u>																								
			627,185																								
			47,488,286																								
			13,366,783																								
			<u>61,482,254</u>																								
<b>9</b>	<b>LOANS AND ADVANCES</b>																										
	<b>Considered good:</b>																										
	Loans to employees	9.1	408,000																								
	Advances to suppliers		457,000																								
			<u>12,659,252</u>																								
			<u>13,067,252</u>																								
<b>9.1</b>	These are interest free loans and are secured against post employment benefits.																										
<b>10</b>	<b>DEPOSITS AND SHORT TERM PREPAYMENTS</b>																										
	Prepayments		1,189,466																								
			<u>1,189,466</u>																								
<b>11</b>	<b>OTHER RECEIVABLES</b>																										
	Export rebate receivable		12,513,462																								
	Sundry receivables		13,197,391																								
			<u>521,494</u>																								
			<u>13,034,956</u>																								
<b>12</b>	<b>TAX REFUNDS DUE FROM THE GOVERNMENT</b>																										
	Sales tax refundable		101,714,530																								
	Income tax refundable		95,416,711																								
			<u>122,482,342</u>																								
			<u>224,196,872</u>																								
<b>13</b>	<b>CASH AND BANK BALANCES</b>																										
	Cash-in-hand		67,758																								
	Cash at banks on current accounts		167,908																								
			<u>21,236,306</u>																								
			<u>21,304,064</u>																								
			<u>7,511,363</u>																								
			<u>7,679,271</u>																								

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016	2015
		----- Rupees -----	
<b>14 ISSUED, SUBSCRIBED AND PAID UP CAPITAL</b>			
10,292,000 (2015:10,292,000) ordinary shares of Rs. 10 each fully paid in cash.		<b>102,920,000</b>	102,920,000
<b>14.1</b> Ordinary shares of the Company held by associated companies as at the balance sheet date:			
		.....Number of shares.....	
Sapphire Agencies (Private) Limited		<b>2,318,899</b>	2,318,899
Reliance Textiles Limited		<b>1,098,118</b>	1,098,118
Neelum Textile Mills (Private) Limited		<b>1,365,515</b>	1,365,515
Sapphire Holdings Limited		<b>636,156</b>	636,156
SFL Limied		<b>557,621</b>	557,621
Sapphire Textile Mills Limited		<b>316,619</b>	316,619
Sapphire Fibres Limited		<b>155,151</b>	155,579
Galaxy Agencies (Private) Limited		<b>108,217</b>	108,217
Nadeem Enterprises (Private) Limited		<b>87,104</b>	87,104
Crystal Enterprises (Private) Limited		<b>27,696</b>	27,696
Sapphire Power Generation Limited		<b>20,539</b>	20,539
Amer Cotton Mills (Private) Limited		<b>18,100</b>	18,100
Amer Tex (Pvt) Limited		<b>15,087</b>	15,087
Yousuf Agencies (Private) Limited		<b>3,223</b>	3,223
Salman Ismail (SMC Private) Limited		<b>1,500</b>	1,500
		<b>6,729,545</b>	6,729,973
<b>14.2</b> Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.			
		2016	2015
		----- Rupees -----	
<b>15 LONG TERM FINANCING</b>			
<b>From banking companies - secured</b>			
Loan at the beginning of the year	15.1	-	75,000,000
Loan obtained during the current year	15.2	<b>58,550,000</b>	-
Less: Payment made during the year		-	(41,666,667)
		<b>58,550,000</b>	33,333,333
Less: Current portion		-	(33,333,333)
		<b>58,550,000</b>	-
<b>15.1</b> This facility was obtained from United Bank Limited in 2013 and carries mark up at the rate of 3 months KIBOR+0.5% payable on quarterly basis. The loan is secured against hypothecation charge of Rs. 134 million on all present and future fixed assets excluding land and building of the Company. It was repayable in twelve equal quarterly installments commencing from September 2013. Loan has been paid off in current year but charge vocation form has not yet been received.			
<b>15.2</b> This loan is obtained during the year from MCB Bank under LTFF scheme of State Bank of Pakistan to finance/retire new textile machinery along with accessories out of total sancationed limit of Rs. 150 million, Rs. 58.5 million has been availed during the year. The loan is secured against first Pari Passu charge of Rs. 200 million over all present & future plant and machinery of the Company. It is repayable in 16 equal semi-annual installments over 10 years including 2 years grace period. The loan carries mark up at the rate of 1 month KIBOR+ 0.5%.			



# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016	2015
		----- Rupees -----	
<b>16 EMPLOYEE BENEFITS - UNFUNDED</b>			
<b>16.1 The amount recognised in the balance sheet</b>			
Present value of defined benefit obligations		73,392,461	61,392,853
Add: Payables		-	865,805
Liability recognized in the balance sheet as at 30th June		<u>73,392,461</u>	<u>62,258,658</u>
<b>16.2 Movement in net liability recognized in the balance sheet</b>			
At beginning of the year		62,258,658	55,725,429
Expense recognised in profit and loss account	16.4	25,797,141	18,071,437
Remeasurement component charged in other comprehensive income		2,812,106	7,285,661
Payments during the year		(17,475,444)	(19,689,674)
At end of the year		<u>73,392,461</u>	<u>61,392,853</u>
<b>16.3 Movement in the present value of defined benefit obligation</b>			
Present value of obligation at beginning of the year		61,392,853	55,725,429
Current service cost		20,621,058	12,915,423
Interest cost		5,176,083	6,021,819
Benefits due but not paid		-	(865,805)
Benefit paid during the year		(16,609,639)	(19,689,674)
Actuarial (gains)/losses on remeasurement of defined benefit obligation due to:			
Changes in financial assumptions		(670,178)	-
Experience adjustment		3,482,284	7,285,661
Present value of obligation at end of the year		<u>73,392,461</u>	<u>61,392,853</u>
<b>16.4 Expense recognised in profit and loss account</b>			
Current service cost		20,621,058	12,915,423
Interest cost		5,176,083	6,021,819
		<u>25,797,141</u>	<u>18,937,242</u>
<b>16.5 Charge for the year has been allocated as follows</b>			
Cost of sales		19,782,275	14,604,589
Distribution cost		3,656,087	2,799,498
Administrative expenses		2,358,779	1,533,155
		<u>25,797,141</u>	<u>18,937,242</u>
<b>16.6 Total Remeasurement chargeable to other comprehensive income</b>			
Actuarial (gains)/losses on remeasurement of defined benefit obligation due to:			
Actuarial (gains)/losses from changes in financial assumptions		(670,178)	-
Experience adjustment		3,482,284	7,285,661
		<u>2,812,106</u>	<u>7,285,661</u>
<b>16.7 Principal actuarial assumptions:</b>			
Principal actuarial assumptions used are as follows: -			
Discount rate - per annum		7.25%	9.75%
Expected rate of growth per annum in future salaries		6.25%	8.75%
Average expected remaining working life time of employees		7 years	7 years
<b>16.8</b>			
Estimated contribution for the year ending June 30, 2017 is Rs. 23.800 million.			

# Notes to the Financial Statements

For the year ended June 30, 2016

## 16.9 Risk associated with defined benefit plans

### Investment risks

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

### Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

The sensitivity of defined benefit obligation to changes in weighted principal assumptions is:

	Impact on defined benefit obligation		
	Changes in assumptions	Increase in assumption	Decrease in assumption
		----- Rupees -----	
Discount rate	1%	68,405,184	79,144,373
Salary growth rate	1%	79,372,925	68,105,016

The aforementioned sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied has been applied as when calculating the gratuity liability recognised within the balance sheet.

16.10 The weighted average contribution of the defined obligation plan is 7 years

## 17 DEFERRED TAX LIABILITY

Deferred tax provision has been recognized only in respect of share of profit of associates considering that other temporary differences will not have any tax impact in foreseeable future, as the income of the Company is being assessed under the final tax regime and the management is confident that the Company will continue to be taxed under final tax regime in foreseeable future.

## 18 TRADE AND OTHER PAYABLES

	Note	2016	2015
		----- Rupees -----	
Creditors	18.1	26,774,474	80,301,497
Accrued liabilities	18.2	98,744,613	124,186,207
Workers' welfare fund		25,780,077	23,165,482
Infrastructure fee	18.3	37,727,561	33,214,085
Advances from customers		3,647,368	2,953,268
Workers' profit participation fund	18.4	5,525,170	6,475,698
Electricity duty		8,886,047	6,240,656
Equalisation surcharge		-	1,937,136
Unclaimed dividend		340,734	259,486
		<u>207,426,044</u>	<u>278,733,515</u>

# Notes to the Financial Statements

For the year ended June 30, 2016

**18.1** Creditors include Rs. 2.138 million (2015: Rs. 0.274 million) due to associated companies. Creditors also include Rs. 6.564 million (2015 Rs.38.675 million) against foreign currency bills payable.

**18.2** Accrued liabilities includes Rs. 9.860 million (2015: Rs. 1.765 million) due to associated company.

**18.3** The provision has been recognized against disputed infrastructure fee levied by the Government of Sindh through Sindh Finance (Amendment) Ordinance 2001. The company has contested this issue in Sindh High Court. The company filed an appeal in the supreme court against the judgement of the High Court dated september 15, 2008 partly accepting the appeal by declaring the levy and collection of infrastructure fee prior to december 26, 2006 as illegal and ultra vires and after that it was legal. Additionally, the Government of Sindh also filed appeal against the part of judgement decided against them.

The above appeals were disposed off in May 2011 with a joint statement of the parties that, during the pendency of the appeals, another law came into existence which was not subject matter in the appeal, therefore, the decision thereon be first obtained from High Court before approaching the Supreme Court with the right to appeal. Accordingly, the petition was filed in High Court in respect of the above view. During the pendency of this appeal an interim arrangement was agreed whereby bank guarantees furnished for the consignments cleared upto December 27, 2006 were returned. For consignment released after December 27, 2006, 50% of the value of infrastructure cess should be paid in cash and bank guarantees for the remaining balance should be furnished until the final order is passed. Similar arrangements continued for the consignment released during the current year.

	Note	2016	2015
		----- Rupees -----	
<b>18.4 Workers' profit participation fund</b>			
At the beginning of the year		6,475,698	4,944,712
Interest on funds utilized in the Company's business	18.5	227,004	191,354
Provision for the year		5,525,170	6,475,698
		<u>12,227,872</u>	<u>11,611,764</u>
Payments made during the year		(6,702,702)	(5,136,066)
At the end of the year		<u>5,525,170</u>	<u>6,475,698</u>

**18.5** Interest on workers' profit participation fund has been provided at 9% to 9.5% (2015: 12.50%) per annum.

## 19 MARK-UP ACCRUED

Mark-up accrued on:

Long term financing	222,250	6,831
Short term borrowings	12,113,852	18,112,594
	<u>12,336,102</u>	<u>18,119,425</u>

## 20 SHORT TERM BORROWINGS

From banking companies-secured

Running finance	606,244,552	122,163,938
Foreign currency import finance	239,002,181	1,072,742,200
Other short term finance	295,000,000	147,288,147
	<u>1,140,246,733</u>	<u>1,342,194,285</u>

**20.1** The short term borrowing facilities amounting to Rs. 5,433 million (2015: Rs. 2,730 million) remained unutilized at the year end.

**20.2** These facilities have been obtained from various banks under mark-up arrangements against aggregate sanctioned limit of Rs. 6,625 million (2015: Rs. 4,032 million). These facilities carry mark-up at the rates ranging from 1.25% to 8.224% (2015: 2% to 13.67%) per annum payable quarterly. The aggregate short term borrowing facilities are secured against hypothecation charge on current assets of the Company and promissory notes.

**20.3** Facilities available for opening letters of credit and guarantees aggregate to Rs. 1,325 million (2015: Rs. 1,360 million) of which facilities amounting to Rs. 1,282 million (2015: Rs. 1,272 million) were remained unutilized at the year end. These facilities are secured against lien on shipping documents and current assets.

# Notes to the Financial Statements

For the year ended June 30, 2016

2016

2015

----- Rupees -----

21

CONTINGENCIES AND COMMITMENTS

21.1

CONTINGENCIES

Guarantees have been issued by banks on behalf of the Company in the normal course of business

69,337,65453,863,694

Post dated cheques in favor of Commissioner Inland Revenue and Collector of Customs

88,366,245181,839,732

157,703,899235,703,426

21.2

Claim of Input Sales Tax

The Company has claimed an input tax of Rs. 13.985 million and the same has been disallowed by Federal Board of Revenue (FBR) Pakistan by a notice dated June 20, 2015.

However the Company has filed an appeal dated July 07, 2015 against the FBR decision and has reasonable grounds to claim the tax.

21.3

Refer to Note 29.3 to the financial statements for contingencies relating to income tax matters.

21.4

COMMITMENTS

Letters of credit for import of:

-2,137,439

- stores and spare parts36,156,82916,322,220

- raw material13,828,79621,547,386

Contracts for capital expenditure49,985,62540,007,045

22

SALES

	2016			2015		
	Export	Local	Total	Export	Local	Total
	----- Rupees -----					
Yarn	615,714,031	529,117,923	1,144,831,954	1,462,242,789	715,776,386	2,178,019,175
Yarn (Indirect exports)	1,955,000,287	-	1,955,000,287	1,694,526,811	-	1,694,526,811
	2,570,714,318	529,117,923	3,099,832,241	3,156,769,600	715,776,386	3,872,545,986
Waste	46,723,426	68,847,853	115,571,279	42,447,768	76,524,314	118,972,082
Waste (Indirect exports)	1,313,673	-	1,313,673	12,126,540	-	12,126,540
	48,037,099	68,847,853	116,884,952	54,574,308	76,524,314	131,098,622
	2,618,751,417	597,965,776	3,216,717,193	3,211,343,908	792,300,700	4,003,644,608
Processing income	-	2,147,621	2,147,621	-	667,458	667,458
Export rebate	2,281,828	-	2,281,828	2,837,506	-	2,837,506
	2,621,033,245	600,113,397	3,221,146,642	3,214,181,414	792,968,158	4,007,149,572

22.1

Export sales include foreign currency exchange gain-net amounting to Rs. 2.287 million (2015: Rs. 9.156 million) realized on export proceeds.

22.2

Sales tax on local and indirect exports is Rs. 60.443 million (2015: Rs. 41.099 million)

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016	2015
		----- Rupees -----	
<b>23 COST OF SALES</b>			
Raw material consumed	23.1	2,030,042,681	2,510,547,946
Packing material consumed		57,258,410	62,505,897
Store and spare parts consumed		68,121,457	69,443,256
Salaries, wages and other benefits	23.2	331,737,619	318,017,979
Fuel and power		279,817,192	333,119,914
Insurance		13,052,358	7,081,010
Repair and maintenance		5,518,773	4,714,440
Travelling and conveyance		5,007,063	5,107,337
Other manufacturing overheads		4,150,805	2,667,561
Depreciation	4.1.1	132,841,331	131,404,718
		<b>2,927,547,689</b>	<b>3,444,610,058</b>
Work-in-process			
At beginning of year		120,307,562	134,041,989
At end of year		(128,561,008)	(120,307,562)
		<b>(8,253,446)</b>	<b>13,734,427</b>
Cost of goods manufactured		<b>2,919,294,243</b>	<b>3,458,344,485</b>
Finished goods			
At beginning of year		61,104,299	180,364,434
Yarn/fabric purchased		1,169,022	6,057,149
At end of year	8	(94,836,235)	(61,104,299)
		<b>(32,562,914)</b>	<b>125,317,284</b>
Cost of goods sold		<b>2,886,731,329</b>	<b>3,583,661,769</b>
<b>23.1 Raw material consumed</b>			
At beginning of the year		559,661,497	990,913,260
Add: Purchases - net		1,854,301,880	2,008,032,782
		<b>2,413,963,377</b>	<b>2,998,946,042</b>
Less: At end of the year		(383,920,696)	(559,661,497)
		<b>2,030,042,681</b>	<b>2,439,284,545</b>
<b>23.2</b> Salaries, wages and other benefits include Rs. 19.782 million (2015: Rs. 14.604 million) in respect of employee benefits - gratuity.			
<b>24 DISTRIBUTION COST</b>			
Salaries and other benefits	24.1	16,581,992	15,909,844
Postage and telephone		365,484	338,911
Traveling, conveyance and Entertainment		9,038,665	8,175,888
Printing, stationery and others		453,250	120,766
Commission			
- Local		3,572,446	3,332,724
- Export		14,160,467	20,931,110
Freight and forwarding			
- Local		5,653,742	5,105,651
- Export		20,725,356	39,107,778
Export development surcharge		1,723,619	3,784,429
Insurance charges - export		294,143	1,539,018
		<b>72,569,164</b>	<b>98,346,119</b>
<b>24.1</b> Salaries and other benefits include Rs. 3.656 million (2015: Rs. 2.799 million) in respect of employee benefits - gratuity.			

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016 ----- Rupees -----	2015 -----
<b>25 ADMINISTRATIVE EXPENSES</b>			
Salaries and other benefits	25.1	30,940,052	26,470,805
Postage and telephone		2,631,157	2,108,350
Fees and subscription		1,366,597	1,033,581
Printing and stationery		473,166	439,369
Traveling and conveyance		1,231,996	1,431,210
Repair and maintenance		2,703,562	1,944,612
Legal and professional charges		2,552,967	2,709,664
Advertisement		73,400	43,000
Entertainment		752,657	1,093,941
Donation		140,000	3,360,500
Utility charges		1,352,715	1,094,314
Others		17,531	1,037,336
		<b>44,235,800</b>	<b>42,766,682</b>
<b>25.1</b>	Salaries and other benefits include Rs. 2.359 million (2015: Rs. 1.533 million) in respect of employee benefits - gratuity.		
<b>26 OTHER INCOME</b>			
<b>Income from assets other than financial assets</b>			
Gain on disposal of property, plant and equipment		1,899,108	831,469
Scrap sales	26.1	2,497,031	3,003,976
<b>Income from financial assets</b>			
Gain on in disposal of Investment		-	240,236
		<b>4,396,139</b>	<b>4,075,681</b>
<b>26.1</b>	Scrap sales inclusive of sales tax amount Rs. 2.961 million (2015: Rs. 3.541 million).		
<b>27 OTHER OPERATING EXPENSES</b>			
Auditors' remuneration	27.1	865,750	857,500
Workers' profit participation fund		5,525,170	6,475,698
Workers' welfare fund		2,614,594	3,241,463
		<b>9,005,514</b>	<b>10,574,661</b>
<b>27.1 Auditors' remuneration</b>			
Annual audit		577,500	577,500
Half-yearly review		137,813	125,000
Compliance report on Code of Corporate Governance		52,500	52,500
Other certification		25,000	25,000
Out-of-pocket expenses		72,937	77,500
		<b>865,750</b>	<b>857,500</b>
<b>28 FINANCE COST</b>			
Mark-up on:			
Long term financing		1,723,204	5,478,923
Short term borrowings		98,663,943	132,200,316
Interest on workers' profit participation fund		227,004	191,354
Bank charges and commission		6,058,693	8,757,748
Exchange loss on foreign currency loans		3,964,495	9,450,875
		<b>110,637,339</b>	<b>156,079,216</b>

# Notes to the Financial Statements

For the year ended June 30, 2016

	Note	2016 ----- Rupees -----	2015 -----
<b>29 PROVISION FOR TAXATION</b>			
Current			
-for the year	29.2	33,926,907	36,106,752
-for prior year		313,490	474,963
		<u>34,240,397</u>	<u>36,581,715</u>
Deferred			
- for the year		14,261,412	3,075,337
		<u>48,501,809</u>	<u>39,657,052</u>
<b>29.1 Relationship between tax expense and accounting profit</b>			
<b>Accounting profit before tax</b>		<b>170,399,161</b>	<b>182,379,400</b>
Tax rate %		32%	33%
Tax on accounting rate		54,527,732	60,185,202
Income chargeable to tax at different rates		1,170,543	(3,426,194)
Effect of tax on share of profits from associates		(7,509,956)	(17,576,919)
Effect of prior year tax		313,490	474,963
<b>Current tax provision</b>		<b>48,501,808</b>	<b>39,657,052</b>
<b>29.2</b>	The Company falls under the ambit of final tax regime under the Income Tax Ordinance, 2001, provision for income tax is made accordingly. Assessments for the tax year 2016 is deemed to have been finalized under section 120 of the Income Tax Ordinance, 2001.		
<b>29.3</b>	There is a dispute between the Company and tax department on applicability of tax rate on export sales in the tax years 2003, 2004 and 2005. The Company contends that the rate applicable is 1% on export proceeds whereas the tax department takes it at 1.25% in the tax year 2003 and 2004 whereas for tax year 2005 it was taken at 1.5%. For these years there are two set of appeals on two different angles.		
	First one is on refusal of the tax department to pass refund order under section 170(4) as claimed by the Company as a result of application of aforementioned difference in tax rates. Appeals on this matter at Commissioner Inland Revenue (Appeals) were decided against tax department. Inland Revenue Appellate Tribunal also maintained the decision of Commissioner Inland Revenue (Appeals) against the appeals filed by tax department.		
	The second one is against the Order passed under section 122(5A) of the Ordinance for the same years whereby the tax department has framed amendment of assessment disallowing the eligibility of tax rate adopted by the Company in the tax returns filed. Appeals on this matter at Commissioner Inland Revenue (Appeals) were decided against the Company. The Company filed appeals against combined appeals order of Commissioner Inland Revenue (Appeals), before Inland Revenue Appellate Tribunal which are decided in favor of the Company.		
	However the Commissioner Inland Revenue has filed appeal (ITR 8, 9 and 10 of 2013) in Sindh High Court of which decision is still pending.		
<b>29.4</b>	Under section 5A of the Income Tax Ordinance, 2001, the Company is obligated to pay tax at the rate of 10 percent on its undistributed reserves exceeding 100 percent of its paid-up capital. Further, such tax shall not be applicable to a public company which distributes lower of 40 percent of its after tax profits or 50 percent of its paid up capital, within six months of the end of the tax year. The Company intends to comply with the requirements under section 5A of the Income Tax Ordinance, 2001 in the forthcoming six months.		

# Notes to the Financial Statements

For the year ended June 30, 2016

	2016	2015
	----- Rupees -----	
<b>30 EARNINGS PER SHARE - BASIC AND DILUTED</b>		
There is no dilutive effect on the basic earning per share which is based on:		
Profit attributable to ordinary shareholders	<b>121,897,352</b>	142,722,348
Weighted average number of ordinary shares outstanding during the year (Numbers)	<b>10,292,000</b>	10,292,000
<b>Earnings per share -</b>	<b>11.84</b>	13.87

## 31 REMUNERATION TO CHIEF EXECUTIVE OFFICER AND EXECUTIVES

	Chief Executive Officer		Executives	
	2016	2015	2016	2015
	----- Rupees -----		----- Rupees -----	
Managerial remuneration	<b>4,422,000</b>	3,216,000	<b>22,550,933</b>	17,040,831
House rent	<b>1,989,900</b>	1,447,200	<b>9,628,981</b>	7,205,864
Utilities	<b>188,100</b>	136,800	<b>885,004</b>	663,151
Conveyance	-	-	<b>25,200</b>	18,000
Medical expenses	-	-	<b>580,058</b>	428,415
Bonus/Leave encashment	-	-	<b>5,063,342</b>	3,736,264
	<b>6,600,000</b>	4,800,000	<b>38,733,518</b>	29,092,525
<b>Number of persons</b>	<b>1</b>	1	<b>16</b>	14

31.1 The executives are also provided with cars maintained by the Company.

31.2 The Company has paid Rs.50,000 (2015: Rs.10,000) as meeting fee to director.

31.3 No remuneration was paid to the directors of the Company.

## 32 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of 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. Further, quantitative disclosures are included throughout these financial statements.

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

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 the 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 June 30, 2016

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. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## 32.1 Credit risk and concentration of credit risk

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

The Company is exposed to credit risk from its operating activities primarily for local trade debts, sundry receivables and other financial assets.

The Company does not hold collateral as security.

The Company's credit risk exposures are categorized under the following headings:

### Counterparties

The Company conducts the following major types of transactions with counterparties:

### Trade debts

Trade debts are essentially due from local and foreign customers against supply of yarn. The majority of sales to the Company's customers are made on specific terms. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance.

### Bank and investments

The Company limits its exposure to credit risk by only investing in highly liquid securities and only with counterparties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

## 32.1.1 Exposure to credit risk

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

	2016	2015
	----- Rupees -----	
Long term loans	-	57,000
Long term deposits	8,987,690	9,129,670
Trade debts	351,018,083	434,038,719
Loans and advances	408,000	400,000
Other receivables	521,494	279,181
Bank balances	21,236,306	7,511,363
	<u>382,171,573</u>	<u>451,415,933</u>

Geographically there is no concentration of credit risk.

The aging of past due trade receivables at the reporting date is:

# Notes to the Financial Statements

For the year ended June 30, 2016

	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
	----- Rupees -----			
Past due				
Upto 1 month	82,610,776	-	218,611,385	-
1 month to 6 months	22,293,529	-	147,152,909	-
Over 6 months	5,225,772	-	146,999	-
Over 6 months - impaired	-	-	-	-
	<b>110,130,077</b>	<b>-</b>	<b>365,911,293</b>	<b>-</b>

There is no movement in the allowance for the receivables classified as impaired.

Based on age analysis, relationship with customers and past experience the management does not expect any party to fail to meet their obligations. The management believes that trade debts are considered good and hence no impairment allowance is required in this regard.

## 32.2 Liquidity risk management

Liquidity risk reflects the Company's inability in raising funds to meet commitments. 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 customer.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 20.1 to these financial statements is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

### 32.2.1 Liquidity and interest risk table

The following table detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities under long term financing and short term borrowing agreements based on the earliest date on which the Company can be required to pay.

Carrying amount and contractual cash flows of trade and other financial liabilities are approximately same.

2016						
Carrying Amount	Contractual Cash Flows	Six months or less	Six to twelve months	One to two years	Two years or above	
..... Rupees .....						
Non-derivative Financial liabilities						
Long term financing	58,550,000	67,700,953	730,583	733,167	1,463,750	64,773,453
Trade and other payable	125,859,821	125,859,821	125,859,821	-	-	-
Mark up accrued	12,336,102	12,336,102	12,336,102	-	-	-
Short term borrowings	1,140,246,733	1,257,150,530	648,059,231	609,091,299	-	-
	1,336,992,656	1,463,047,406	786,985,737	609,824,466	1,463,750	64,773,453
2015						
Carrying Amount	Contractual Cash Flows	Six months or less	Six to twelve months	One to two years	Two years or above	
..... Rupees .....						
Non-derivative Financial liabilities						
Long term financing	33,333,333	36,238,816	18,689,954	17,548,862	-	-
Trade and other payable	206,684,326	206,684,326	206,684,326	-	-	-
Mark up accrued	18,119,425	18,119,425	18,119,425	-	-	-
Short term borrowings	1,342,194,285	1,479,802,754	762,836,122	716,966,632	-	-
	1,600,331,369	1,740,845,321	1,006,329,827	734,515,494	-	-

# Notes to the Financial Statements

For the year ended June 30, 2016

## 32.3 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 the return on risk.

### 32.3.1 Foreign currency risk management

Pak Rupee (PKR) is the functional currency of the Company and as a result currency exposure arise from transactions and balances in currencies other than PKR. The Company's potential currency exposure comprise;

- Transactional exposure in respect of non functional currency monetary items.
- Transactional exposure in respect of non functional currency expenditure and revenues.

The potential currency exposures are discussed below;

Transactional exposure in respect of non functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit and loss account. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

Transactional exposure in respect of non functional currency expenditure and revenues.

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy.

### Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	2016		2015	
	USD	EURO	USD	EURO
Trade debts	346,869	242,544	931,926	54,102
Trade creditors	(62,694)	-	(120,811)	(3,278)
Short term borrowings	(2,282,733)	-	(1,448,261)	-
	<u>(1,998,558)</u>	<u>242,544</u>	<u>(637,146)</u>	<u>50,824</u>

Commitments outstanding at year end amounted to Rs. 36.157 million (2015: Rs. 18.459 million) relating to letter of credits for import of stores, spare parts, raw material and plant & machinery.

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
	2016	2015	2016	2015
	----- Rupees -----		----- Rupees -----	
USD 1	103.93	101.36	104.50	101.70
EURO 1	115.37	121.73	116.08	113.79

# Notes to the Financial Statements

For the year ended June 30, 2016

## Sensitivity analysis

A 5 percent strengthening of the Pak Rupee against the USD & EURO at June 30, 2016 would have decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2016.

	2016	2015
	----- Rupees -----	
(Increase) / Decrease in profit and loss account	<u>11,850,191</u>	<u>3,529,051</u>

A 5 percent weakening of the Pak Rupee against the USD & EURO at June 30, 2016 would have equal but opposite effect on profit or loss by the amount shown above on the basis that all other variables remain constant.

## 32.4 Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period.

### Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	2016	2015	2016	2015
	..... % .....		----- Rupees -----	
<b>Financial liabilities</b>				
Long term financing	6.71 to 7.48	8.48 to 10.67	58,550,000	33,333,333
Short term borrowings	1.25 to 8.224	2 to 13.76	<u>1,140,246,733</u>	<u>1,342,194,285</u>
			<u>1,198,796,733</u>	<u>1,375,527,618</u>

## Fair value sensitivity analysis for floating rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in floating interest rates, with all other variables held constant, on the Company's profit before tax.

	Increase / (Decrease) in basis %	Effect on profit before tax Rupees
<b>2016</b>		
Long term financing	1.00%	585,500
Short term borrowings		<u>11,402,467</u>
		<u>11,987,967</u>
<b>2015</b>		
Long term financing	1.00%	333,333
Short term borrowings		<u>13,421,943</u>
		<u>13,755,276</u>

## 32.5 Equity Price Risk Management

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. The Company's Board of Directors reviews and approves all equity investment decisions.

The Company is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

# Notes to the Financial Statements

For the year ended June 30, 2016

33	FINANCIAL INSTRUMENTS BY CATEGORY	2016 ----- Rupees -----	2015
	<b>Financial Assets</b>		
	<b>Loans and receivables at amortised cost</b>		31,220,029
	Long term loans	-	-
	Long term deposits	8,987,690	9,129,670
	Trade debts	351,018,083	434,038,719
	Loans and advances	408,000	457,000
	Deposits and prepayments	-	-
	Other receivables	13,034,956	13,476,572
		<b>373,448,729</b>	<b>457,101,961</b>
	<b>Financial Assets - At fair value</b>		
	Other financial assets	-	-
	Cash and bank balances	21,304,064	7,679,271
		<b>394,752,793</b>	<b>464,781,232</b>
	<b>Financial Liabilities - At amortised cost</b>		
	Long term financing	58,550,000	33,333,333
	Trade and other payable	138,393,236	215,878,250
	Mark up accrued	12,336,102	18,119,425
	Short term borrowings	1,140,246,733	1,342,194,285
		<b>1,349,526,071</b>	<b>1,609,525,293</b>

## 34 CAPITAL DISCLOSURE

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholder and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to reserve or/and issue new shares.

Consistent with others in industry, the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowing divided by total capital employed. Borrowing comprises of long term finances and short term borrowings obtained by Company. Total capital employed includes share capital and reserves (total equity) plus borrowings:-

Total borrowings including mark-up accrued	1,211,132,835	1,393,647,043
Total equity	1,963,242,219	1,917,076,858
Total capital employed	<b>3,174,375,054</b>	<b>3,310,723,901</b>
Gearing ratio	<b>38.15%</b>	<b>42.09%</b>

# Notes to the Financial Statements

For the year ended June 30, 2016

## 35 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, directors, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Relationship	Nature of transaction	2016	2015
Associated companies		----- Rupees -----	
	<b>Sales:</b>		
	Yarn / raw material / stores, spare parts	308,610,476	502,599,461
	<b>Purchase:</b>		
	Yarn /raw material /stores, spare parts	11,918,317	96,692,240
	Property plant and equipment	10,200,000	4,223,665
	Electricity	169,505,779	77,121,952
	<b>Services:</b>		
	Rendered	50,152	-
	Obtained	8,404,345	3,522,768
	<b>Dividend:</b>		
	Paid	33,642,165	10,095,671
	Received	8,136,055	8,257,443
	Shared expenses paid	6,384,660	7,124,954

35.1 All transactions with related parties have been carried out at commercial terms and conditions.

## 36 NUMBER OF EMPLOYEES

Average number of employees during the year	1,028	1,344
Number of employees as at June 30	1,113	1,369

## 37 PLANT CAPACITY AND ACTUAL PRODUCTION

### Production capacity

Total number of spindles installed	34,848	34,848
Number of MVS units installed (in equivalent number of spindles)	920	920
Installed capacity after conversion into 20's count (Lbs.)	25,149,564	25,149,564

### Actual production

Number of spindles / MVS worked	32,793	33,149
Number of shifts per day	3	3
Total days worked	365	365
Actual production of yarn after conversion into 20's count (Lbs.)	21,269,295	20,747,192

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted. Difference of actual production with installed capacity is in normal course of business.

# Notes to the Financial Statements

For the year ended June 30, 2016

## 38 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of fixed term loans, long term advances, stores spares and loose tools, stock in trade, trade debts, advances long term financing and trade payables cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since these are either short-term in nature or, in the case of customer loans and deposits, are frequently reprised.

### Fair value hierarchy

Financial instruments are 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).

The company does not hold any financial instrument at June 30, 2016 which needs classification under the above levels.

## 39 OPERATING SEGMENTS

Chief Executive Officer considers the business as a single operating segment as the Company assets allocation decision are based on a single, integrated business strategy, and the Company's performance is evaluated on overall basis.

The information with respect to operating segment is stated below:

81.37% (2015: 80.21%) sales of the Company relates to export customers.

As at year end, all non-current assets of the Company are located in Pakistan.

Sales of two customers of the Company is more than 10% which constitutes a total amount of Rs. 1.20 billion. ( 2015: Rs. 0.91 billion).

## 40 CORRESPONDING FIGURES

Corresponding figures have been rearranged and restated for better presentation wherever necessary. Significant reclassification made are as follows:

From	To	Reason	Amount (Rupees)
Processing Charges	Raw material consumption	For better presentation	106,035,616
Entertainment Expenses	Traveling, conveyance and entertainment	For better presentation	1,034,159

# Notes to the Financial Statements

For the year ended June 30, 2016

**41 EVENT AFTER BALANCE SHEET DATE**

The Board of Directors in its meeting held on October 06, 2016 has proposed to pay cash dividend for the year ended June 30, 2016 of Rs. 51.460 million @ Rs. 5.00 per ordinary share of Rs. 10 each (2015: Rs. 51.460 million @ Rs. 5 per ordinary share of Rs. 10 each). This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been recognized in these financial statements.

**42 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 06, 2016 by the Board of Directors of the Company.

**43 GENERAL**

Figures have been rounded off to the nearest Rupee.

Karachi:  
Dated: October 06, 2016

**SHAYAN ABDULLAH**  
CHIEF EXECUTIVE

**MOHAMMAD ABDULLAH**  
DIRECTOR



# Pattern of Shareholding

AS AT JUNE 30, 2016

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
374	1	100	7,466
78	101	500	29,974
26	501	1000	23,637
24	1001	5000	65,097
11	5001	10000	78,728
2	10001	15000	25,397
3	15001	20000	51,440
1	20001	25000	20,539
2	25001	30000	55,709
4	35001	40000	153,085
2	40001	45000	85,164
1	65001	70000	69,160
1	75001	80000	79,027
2	85001	90000	176,154
1	105001	110000	108,217
1	120001	125000	123,902
1	145001	150000	149,194
1	155001	160000	155,151
1	230001	235000	232,838
1	315001	320000	316,619
1	340001	345000	340,826
1	365001	370000	365,515
1	435001	440000	435,645
1	465001	470000	465,638
1	520001	525000	522,570
1	545001	550000	545,522
1	555001	560000	557,621
1	635001	640000	636,156
1	930001	935000	934,026
1	995001	1000000	1,000,000
1	1095001	1100000	1,097,110
1	1380001	1385000	1,384,873
<b>549</b>		<b>Total</b>	<b>10,292,000</b>

# Category of Shareholders

AS AT JUNE 30, 2016

CATEGORY OF SHAREHOLDERS	Shares Held	Percentage
Directors, CEO, spouses and Minor Children	1,494,528	14.5213
Associated Companies, undertakings, related parties	6,729,545	65.3862
NIT & ICP	465,638	4.5243
Banks, DFI & NBF	325	0.0032
Insurance Companies	16,940	0.1646
Modaraba Companies and Mutual Funds	500	0.0049
Individuals Local	1,546,274	15.0240
Joint Stock Companies	43	0.0004
Other Companies	38,207	0.3712
	10,292,000	100.0000

# Pattern of Shareholding

AS AT JUNE 30, 2016

## A) ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES

Reliance Textiles (Private) Limited	1,098,118
Neelum Textile Mills Limited.	1,365,515
Sapphire Textile Mills Limited.	316,619
Sapphire Fibres Limited	155,151
Sapphire Agencies (Pvt) Ltd.	2,318,899
Amer Cotton Mills (Private) Limited	18,100
Galaxy Agencies (Private) Limited	108,217
Sapphire Power Generation Limited	20,539
Nadeem Enterprises (Private) Limited	87,104
Crystal Enterprises (Private) Limited	27,696
Salman Ismail (SMC-Private) Limited	1,500
Yousuf Agencies (Private) Limited	3,223
Amer Tex (Pvt.) Limited	15,087
SFL Limited	557,621
Sapphire Holding Limited	636,156

## B) NIT & ICP

National Bank of Pakistan Trustee Department	465,638
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## C) DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSES AND MINOR CHILDREN

### DIRECTORS & THEIR SPOUSES

Mr. Mohammad Abdullah.	89,050
Mr. Yousuf Abdullah.	588,710
Mr. Mohammad Yamin.	665
Mr. Amer Abdullah.	379,576
Mrs. Ambareen Amer	240,838
Mrs. Shamshad Begum	165,878
Mrs. Usma Yousuf	28,013
Mr. Nabeel Abdullah	570
Mr. Asif Elahi	500

### CHIEF EXECUTIVE OFFICER & HIS SPOUSE

Mr. Shayan Abdullah	728
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# Pattern of Shareholding

AS AT JUNE 30, 2016

D)	<b>BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS &amp; MUTUAL FUNDS</b>	
	<b>BANKS</b>	
	National Bank of Pakistan	225
	<b>Development Financial Institutions</b>	
	National Development Finance Corporation	100
	<b>INSURANCE COMPANIES</b>	
	State Life Insurance Company of Pakistan	16,940
	<b>MODARABA COMPANIES</b>	
	First Punjab Modaraba	500
E)	<b>SHAREHOLDERS HOLDING 5% OR MORE</b>	
	Neelum Textile Mills (Private) Limited	1,365,515
	Reliance Textiles (Private) Limited	1,098,118
	Sapphire Agencies (Private) Limited	2,318,899
	SFL Limited	557,621
	Sapphire Holding Limited	636,156
	Mr. Yousuf Abdullah	588,710
	Mrs. Shireen Shahid	538,970
F)	<b>TRADING IN THE SHARES OF COMPANY DURING THE YEAR BY THE DIRECTORS, CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER, COMPANY SECRETARY AND THEIR SPOUSES AND MINOR CHILDREN.</b>	
		Nil

# Form of Proxy

I / we

Folio No.

of

a member(s) of **Reliance Cotton Spinning Mills Limited** and a holder of

Ordinary Shares,

do hereby appoint

of

or failing him/her

of

a member of **Reliance Cotton Spinning Mills Limited**, vide Registered Folio No. \_\_\_\_\_ as my/our Proxy to act on my/our behalf at 27th Annual General Meeting of the Company to be held on Saturday the 29th October, 2016 at 04:00 p.m. at Trading Hall, Cotton Exchange Building, I. I. Chundrigar Road, Karachi and / or any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2016

Signature \_\_\_\_\_

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

**REVENUE  
STAMP OF  
RS.5/-**

## NOTICE

1. No proxy shall be valid unless it is duly stamped with a revenue stamp of Rs.5/-
2. In the case of Bank or Company, the proxy form must be executed under its Common seal and signed by its authorized person.
3. Power of attorney or other authority (if any) under which this proxy form is signed then a certified copy of that power of attorney must be deposited along with this proxy form.
4. This form of proxy duly completed must be deposited at the Registered Office of the Company atleast 48 hours before the time of holding the meeting.
5. In case of CDC account holder :
  - i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
  - ii) Attested copies of CNIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.
  - iii) The proxy shall produce his original CNIC or original passport at the time of meeting.
  - iv) In case of corporate entity, the board of directors' resolution/power of attorney with specimen signature of the proxy holder shall be submitted (unless it has been provided earlier) along with proxy form to the company.

## Witness :

Name

Address

NIC No.

Name

Address

NIC No.

## فارم برائے قائم مقام / متبادل

ریلانیس کاٹن اسپننگ ملز لمیٹڈ

[illegible]

## گواہان:

**REVENUE  
STAMP OF  
RS.5/-**

.....:ستخط (1)

نام: \_\_\_\_\_

---

\_\_\_\_\_ CNIC یا اسپورٹ نمبر \_\_\_\_\_

شیر ہولڈر کے دستخط

.....: دستخط (1)

نام: \_\_\_\_\_

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CNIC یا اسپورٹ نمبر

**نوٹ:** یہ قائم مقام/متبادل فارم مکمل کر کے میٹنگ کی تاریخ سے 48 گھنٹے پہلے تک کمپنی دفتر بمقام کائن ایسوسی ایٹس بلڈنگ، آئی آئی چندریگر روڈ، کراچی جمع کروائیں۔

C D C شیئر ہولڈر اور اُن کے قائم مقام/متبادل ہر ایک سے گزارش ہے کہ اپنے کمپیوٹرائزڈ قومی شناختی کارڈ (CNIC) یا پاسپورٹ کی فوٹو کاپی اس فارم کے ساتھ کمپنی میں جمع کروائیں۔

C D C شیئر ہولڈر یا اُن کے قائم مقام / متبادل سے گزارش ہے کہ اپنے اصلی کمپیوٹر ایزڈ شناختی کارڈ یا پاسپورٹ ہمراہ شرکت کا I.D. نمبر اور اپنا اکاؤنٹ نمبر سالانہ جنرل میٹنگ میں شرکت کے لیے آتے ہوئے ساتھ لائیں تاکہ اُن کی شناخت میں آسانی ہو۔