

TOWELLERS LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2014



TOWELLERS LIMITED

TOWELLERS LIMITED

REVIEW REPORT TO THE MEMBERS

On the Statement of Compliance with Best Practices of the Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2014 prepared by the Board of Directors of **Towellers Limited** to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange Limited and Lahore Stock Exchange Limited, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company'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 control covers all the risks and control or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Sub- Regulation (x) of Listing Regulation No. 35 of Karachi requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried 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 status of the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2014.

MUSHTAQ & COMPANY
Chartered Accountants
Engagement Partner:
Mushtaq Ahmed Vohra
FCA

Karachi, October 01, 2014

TOWELLERS LIMITED

AUDITORS' REPORT TO THE MEMBERS

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

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the 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 verifications, we report that;

- (a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion;
 - (i) the Balance Sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change in accounting policy as stated in note 3.11 to the financial statements with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2014 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without Qualifying our opinion, we draw attention to note 1.1 in the financial statements which indicates that the company incurred a net loss of Rs. 376,199,170 during the year ended June 30, 2014. These conditions along with other matters as explained in note 1.1 indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. These financial statements however have been prepared on the going concern basis on the assumption as detailed in aforesaid note. Attention is further drawn to note 1.2 to financial statements which describe the disposal of the sizeable part of the business and its effects on the financial statements.

MUSHTAQ & COMPANY
Chartered Accountants
Engagement Partner:
Mushtaq Ahmed Vohra
FCA

Karachi, October 01, 2014

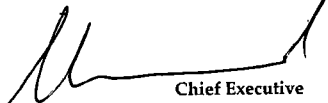
TOWELLERS LIMITED

BALANCE SHEET

As at June 30, 2014

	Note	2014 Rupees	RESTATED	
			2013 Rupees	2012 Rupees
ASSETS				
NON CURRENT ASSETS				
Property, plant and equipment	4	515,730,655	1,659,397,235	1,325,684,205
Long term loans and advances	5	15,085,130	14,738,037	15,426,972
Long term deposits	6	3,677,382	5,405,436	3,845,816
		534,493,167	1,679,540,708	1,344,956,993
CURRENT ASSETS				
Stores, spare parts and loose tools	7	12,495,662	21,520,650	13,314,073
Stock in trade	8	442,277,451	453,195,755	394,191,838
Trade debts	9	301,252,364	346,645,913	277,048,760
Loans and advances	10	23,692,857	15,631,858	16,494,567
Trade deposits and short term prepayments	11	44,968,331	4,128,507	221,000
Other receivables	12	851,822,736	74,123,264	71,921,948
Income tax and sales tax refundable	13	111,364,709	71,529,018	51,982,228
Cash and bank balances	14	89,907,967	166,718,156	188,693,676
		1,877,782,078	1,153,493,121	1,013,868,090
		2,412,275,245	2,833,033,829	2,358,825,083
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Authorized capital		250,000,000	250,000,000	250,000,000
25,000,000 (June 30, 2012: 25,000,000) ordinary shares of Rs. 10 each				
Issued, subscribed and paid up capital	15	170,000,000	170,000,000	170,000,000
Reserves		(438,643,180)	(419,900,222)	(479,407,016)
		(268,643,180)	(249,900,222)	(309,407,016)
Surplus on revaluation of property, plant & equipment	16	371,015,767	758,688,532	413,852,212
LIABILITIES				
NON CURRENT LIABILITIES				
Long term financings	17	765,179,367	761,521,549	540,883,360
Loan from directors & others	18	173,124	-	-
Deferred liabilities				
Staff retirement benefits - gratuity	19	74,808,998	50,317,322	46,505,550
		840,161,489	811,838,871	587,388,910
CURRENT LIABILITIES				
Trade and other payables	20	575,167,410	601,709,361	609,408,103
Accrued mark up and interest	21	134,214,818	81,003,001	85,328,590
Short term borrowings	22	711,371,608	731,192,695	872,935,242
Current portion of				
Long term financings	17	48,987,334	93,143,629	99,319,042
Provision for taxation		-	5,357,963	-
		1,469,741,170	1,512,406,649	1,666,990,977
CONTINGENCIES AND COMMITMENTS				
	23			
		2,412,275,245	2,833,033,829	2,358,825,083

The annexed notes from 1 to 44 form an integral part of these financial statements.


Chief Executive


Director

Karachi, October 01, 2014

TOWELLERS LIMITED


PROFIT AND LOSS ACCOUNT

For the year ended June 30, 2014

	Note	2014 Rupees	2013 Rupees Restated
Sales - net	24	3,424,903,609	2,682,072,489
Cost of sales	25	(3,067,385,723)	(2,377,782,961)
Gross profit/(loss)		357,517,886	304,289,528
Distribution cost	26	(191,515,445)	(122,197,471)
Administrative expenses	27	(149,608,606)	(123,058,344)
Other operating expenses	28	(991,571)	(7,377,897)
Finance cost	29	(27,802,896)	(44,518,631)
		(369,918,519)	(297,152,343)
Profit/(loss) from operations		(12,400,633)	7,137,185
Other income	30	13,689,489	69,738,643
Other loss	31	(343,853,627)	-
Profit/(loss) before taxation		(342,564,771)	76,875,828
Provision for taxation	32	(33,634,399)	(32,824,049)
Profit/(loss) for the year		(376,199,170)	44,051,779
Profit/(loss) per share - basic and diluted	33	(22.13)	2.59

The annexed notes from 1 to 44 form an integral part of these financial statements.


Chief Executive

Director 


Karachi, October 01, 2014

TOWELLERS LIMITED

STATEMENT OF COMPREHENSIVE INCOME For the year ended June 30, 2014

	Note	2014 Rupees	2013 Rupees Restated
Profit/(loss) for the year		(376,199,170)	44,051,779
Other comprehensive income/(loss) for the year		-	-
Items that may be reclassified subsequently to profit and loss account:			
Remeasurement on staff retirement benefits		(30,216,553)	(5,636,736)
Total comprehensive income/(loss) for the year		<u>(406,415,723)</u>	<u>38,415,043</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.



Chief Executive

Karachi, October 01, 2014



Director

TOWELLERS LIMITED

3.16 Revenue recognition

- a) Revenue from sale of goods is recognized when goods are dispatched to customers and invoices raised.
- b) Return on bank balances is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.
- c) Dividend income and entitlement of bonus shares are recognized when right to receive such dividend and bonus shares is established.

3.17 Government grant

These represent transfer of resources from government, government agencies and similar bodies, in return for the past or future compliances with certain conditions relating to the operating activities of the entity.

The grants are disclosed as a deduction from the related expense.

3.18 Borrowing cost

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commencing.

3.19 Foreign currency transactions and translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

The financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.

3.20 Cash and cash equivalents

Cash and cash equivalents comprise of cash at banks, cash in hand and short term deposits. For the purposes of cash flow statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of temporary overdrawn bank balances.

3.21 Impairment

The carrying amount of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account.

3.22 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 assets and when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognizing of financial assets and financial liabilities is included in the profit and loss account for the year. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

3.23 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to setoff the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

3.24 Related party transactions

All transactions with related parties are carried out by the Company at arms' length price using the method prescribed under the Companies Ordinance 1984.

Nature of the related party relationship as well as information about the transactions and outstanding balances are disclosed in the relevant note to the financial statements.

TOWELLERS LIMITED

36.1.4 Credit quality of counter parties is assessed based on historical default rates. All receivables past due are considered good. The management believes that allowance for impairment of receivables past due is not necessary, as these comprise amounts due from old customers, which have been re-negotiated from time to time and are also considered good.

36.2 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

2014						
Carrying Amount	Contractual Cash flows	Six months or less	Six to twelve months	Two to five years	More than five years	
Rupees						
Non - derivative						
Financial liabilities						
Long term financings	814,166,701	860,500,232	51,668,400	47,066,599	622,142,247	139,622,986
Trade and other payables	575,167,410	575,167,410	575,167,410	-	-	-
Accrued mark up and interest	134,214,818	134,214,818	134,214,818	-	-	-
Short term loans	698,326,822	767,950,006	767,950,006	-	-	-
	2,221,875,751	2,337,832,467	1,529,000,635	47,066,599	622,142,247	139,622,986

2013						
Carrying Amount	Contractual Cash flows	Six months or less	Six to twelve months	Two to five years	More than five years	
Rupees						
Non - derivative						
Financial liabilities						
Long term financings	860,393,848	860,500,232	51,668,400	47,066,599	622,142,247	139,622,986
Trade and other payables	669,076,273	669,076,273	669,076,273	-	-	-
Accrued mark up and interest	81,003,001	81,003,001	81,003,001	-	-	-
Short term loans	634,483,887	697,741,931	697,741,931	-	-	-
	2,244,957,009	2,308,321,437	1,499,489,605	47,066,599	622,142,247	139,622,986

36.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark up rates effective as at June 30. The rates of mark up have been disclosed in relevant notes to these financial statements.

36.3 Market risk

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

36.3.1 Currency risk

Exposure to currency risk

The company is exposed to currency risk on trade debts, borrowing and import of raw material and stores that are denominated in a currency other than the respective functional currency of the company, primarily in US Dollar and Euro. The currencies in which these transactions primarily are denominated is US Dollar and Euro. The company's exposure to foreign currency risk is as follows:

	US Dollar	Euro	Others	Rupees
Trade debts 2014	3,157,853	-	-	293,126,516
Trade debts 2013	3,383,707	-	-	315,098,737