SAFA TEXTILES LIMITED
Profit and Loss Account
For the year ended June 30, 2017

REVENUE	Note	2017	2016
		Amounts in Rupees	
Sales - net	19	2,263,808	322,730,408
Less: Cost of goods sold	20	(18,838,482)	(442,672,527)
Gross (Loss)		(16,574,674)	(119,942,119)
OPERATING EXPENSES			
Administrative expenses	21	(12,748,719)	(23,026,484)
Selling and distribution expense	22	(13,916)	(13,534,635)
Total Operating Expenses		(12,762,635)	(36,561,119)
Operating (Loss)		(29,337,309)	(156,503,238)
Financial charges	23	(253,230)	(34,515,281)
Other charges		-	(271,333)
Other income	24	3,454,146	11,437,582
(Loss) Before Taxation		(26,136,393)	(179,852,271)
TAXATION			
Taxation	25	70,443	(3,771,695)
Total Taxation		70,443	(3,771,695)
Net (Loss) After Taxation		**(26,065,950)**	**(183,623,966)**
(Loss) Per Share - Basic And Diluted	26	(6.52)	(45.91)

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

SMS

Chief Executive | Director | Finance Executive

Due to the non appointment of the Chief Financial Officer these financial statements have been signed by Finance Executive

SAFA TEXTILES LIMITED
Balance Sheet
As at June 30, 2017

ASSETS	Note	2017	2016
		Amounts in Rupees	
Non-Current Assets			
Property, plant and equipment	5	59,222,196	135,075,880
Investment Property	6	65,279,038	-
Intangible Assets	7	205,982	257,478
Total Non-Current Assets		124,707,217	135,333,358
Current Assets			
Stores and spares		-	659,590
Stock-in-trade	8	-	7,697,152
Trade debtors - considered good (unsecured)		9,815,318	28,318,744
Advances	9	42,775,282	42,800,156
Deposits, prepayments and other receivables	10	10,065,466	13,515,987
Tax refunds due from Government	11	6,727,139	6,345,678
Cash and bank balances	12	125,937	115,673
Total Current Assets		69,509,142	99,452,980
TOTAL ASSETS		**194,216,359**	**234,786,338**
EQUITY AND LIABILITIES			
Equity			
Authorized Share Capital			
5,000,000 (2016: 5,000,000) Ordinary Shares of Rs. 10/- each		50,000,000	50,000,000
Issued, subscribed and paid-up capital	13	40,000,000	40,000,000
General reserve		6,000,000	6,000,000
Accumulated (loss)		(398,248,439)	(372,182,490)
Total Equity		(352,248,439)	(326,182,490)
Current Liabilities			
Loan from Directors	14	4,032,000	10,500,000
Trade and other payable	15	188,735,960	195,818,990
Advance from customers	16	7,693,560	7,693,560
Short term borrowing	17	322,000,000	322,659,000
Accrued mark up		22,173,889	22,173,889
Liability against assets subject to finance lease		1,825,084	2,119,084
Unclaimed dividend		4,305	4,305
Total Current Liabilities		546,464,798	560,968,827
Contingencies and commitments	18		
TOTAL EQUITY AND LIABILITIES		**194,216,359**	**234,786,338**

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

Chief Executive   Director   Finance Executive

Due to the non appointment of the Chief Financial Officer these financial statements have been signed by Finance Executive

S.M. SUHAIL & CO.
Chartered Accountants

Main Office
Suite No. 1001, 1014,
10th Floor, Uni Centre,
I.I. Chundrigar Road,
Karachi, Pakistan.
Phone: + 92-21-32414057
+ 92-21-32414163
E-mail: sms@smsco.pk
URL: www.smsco.pk

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We were engaged to review the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) for the year ended on June 30, 2017 prepared by the Board of Directors of **Safa Textiles Limited** (the Company) to comply with the requirements contained under the chapter 5 clause 5.19.24(b) of the Rule Book of Pakistan 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 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 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 of Directors' statement of internal control covers all risks and controls or to form an opinion on effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length 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 to ensure compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. However, due to the matters presented below we were not able to ensure it. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Following instances of non-compliance with the requirements of the Code were observed, which are not stated in the Statement of Compliance:

Note Reference	Description
4	During the year there is a casual vacancy arose on the death of Mr. Syed Iqbal Husain which is not yet filled by the Board of Directors.

Note Reference	Description
11 to 15 & 16	Directors' report do not fully describe the salient matters as required to be disclosed in the report. No audit committee was formed by the Board of Directors, therefore, composition of the committee and the meeting of the committee were not possible.
17	No HR and remuneration committee was formed by the Company.
18	No internal audit function is in operation in the Company.

Our scope was limited due to the matters more fully explained in our audit report available with this review report, and we have not meet with any of the directors of the Company during audit and were not produced with any evidences documents which can represent the compliance of the matters presented in paragraphs 2, 3, 5, 13, 14, 23 and 24 in the statement of compliance with the Code of Corporate Governance, prepared by the management.

Due to the significance of the instances of non compliances and matter of scope limitation presented above, we are unable to conclude whether the Statement of Compliance 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, 2017.

Further, we highlight below instance of non-compliance with the requirement of the Code as reflected in the note reference where it is stated in the Statement of Compliance.

Note Reference	Description
1	There is no independent person in the Board of Directors
8	Only two Board meetings were held during the year.
9	The Board has not yet started the process of orientation for its directors, to apprise them of their duties and responsibilities.
10	Offices of Chief Financial Officer, Company Secretary and Head of Internal Audit are vacant and no appointment made.
12	CFO has not endorse the financial statements before presenting it to the Board of Directors for their approval.

S. M. Suhail & Co.

S.M. Suhail& Co.
Chartered Accountants
Karachi.

Engagement Partner:S.M. Suhail, FCA.
Our Ref: SMS-A-2842018
Date: 12 JUN 2018

S.M. SUHAIL & CO.
Chartered Accountants

Main Office
Suite No. 1001, 1014,
10th Floor, Uni Centre,
I.I. Chundrigar Road,
Karachi, Pakistan.
Phone: + 92-21-32414057
+ 92-21-32414163
E-mail: sms@smsco.pk
URL: www.smsco.pk

AUDITORS' REPORT TO THE MEMBERS

We were engaged to audit the annexed balance sheet of **Safa Textiles Limited (the Company)** as at June 30, 2017 and the related profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity together with the notes forming part thereof, for the year then ended (here-in-after referred to as the financial statements).

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984.

Our responsibility is to express an opinion on these statements based on our audit in accordance with International Standards on Auditing. Because of the matters described below, however, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

a) The company has suffered gross loss of Rs. 16.575 million (2016: 119.942 million) and net loss after tax of Rs. 26.066 million (2016: 183.264 million) which followed in eroded total shareholders' equity of Rs. 352.248 million (2016: Rs. 326.182 million) with current liabilities exceeding its current assets by Rs. 476.956 million (2016: 461.516 million) as at balance sheet date representing adverse financial ratios. After experiencing the rapidly declining sales trend, due to non availability of the orders from customers, the Company has ceased the business operations from December, 2016. Further, plant and machinery with major portion of the premises have been rented to tenants, which remain the only source of income of the Company since December, 2016. We were not produced with any reasonable revival plan which can indicate the future business revival. These conditions indicate the existence of material uncertainty as to the ability of the Company, to realize its assets and discharge its liabilities in the normal course of business, which raises a significant doubt over the ability of the Company, to continue as going concern.

b) The breakup of cost of building is not maintained by the Company which could ascertain the amount of the cost of building. The building together with land has cost of Rs. 90.429 million and carrying value of Rs. 65.279 million (2016: Rs. 68.700 million). According to their nature, these land and building have been classified as investment property in the current year. However, these are not valued at fair value nor are their fair values have been disclosed in the financial statements which represents a non compliance of IAS 40 (Investment Property).

c) The plant and machinery of the Company having carrying value of Rs. 46.440 million (2016: Rs. 51.600 million), has been physically counted subsequent to the yearend. However, due to the lapse of significant time, mismanaged records, transfer and disposal of various machineries, we were unable to work back the value of the plant and machineries together with their existence as at balance sheet date. Further, the value of the existing property, plant and equipment cannot be ascertained due to non availability of valuation and itemized identification thereof.

d) Management did not carry the test for assessment of need of impairment, which is in contravention of the Company's declared accounting policy and the requirements of the applicable financial reporting framework. During the visit for physical count at the factory, many of the machineries were found idle and in rusted condition and indicating that the value in use is significantly lesser than the carrying amount.

e) The stock in trade and stores and spares have been written off completely. However, due to the non availability of records for issue of stock, the written off amount cannot be ascertained and its impact has been accounted in cost of sales, instead of separately reported on profit and loss account. Moreover, the stock is neither valued at cost nor at net realizable value, but completely written off.

f) Due to the lack of records and non availability of confirmation and subsequent clearance evidences, we were unable to verify loans and advances amounting to Rs. 1.579 million (2016: Rs. 1.579 million), outstanding amount of duty drawback of Rs. 3.036 million (3.695 million), export rebate receivable Rs. 5.234 million (2016: Rs. 8.385 million), income tax refundable Rs. 2.374 million (2016: Rs. 2.063 million) and sales tax refundable Rs. 4.282 million (2016: Rs. 4.282 million).

g) Due to the non availability of records, reconciliations and direct confirmation from banks we were unable to verify the cash at bank balance amounting to Rs. 115,500 as at balance sheet date. Therefore, impact of transactions during the year cannot be ascertained to be completely incorporated in the financials.

h) Confirmation sent to; suppliers against outstanding creditors Rs. 172.978 million (2016: Rs. 180.931 million), advances to vendors Rs. 41.196 million (2016: Rs. 41.221 million) and advance from customers Rs. 7.693 million (2016: Rs. 7.693 million) were not responded. These have become overdue and payments are not being made which may attract legal actions. Moreover, the confirmation circulated to legal advisor also remained un-responded, therefore, we are not aware of any litigation filed against the Company for non payments of amounts payable at year end. The actual outstanding amount is also not verified due to non availability of aging analysis and other records.

i) There were no written terms of the loan from directors amounting to Rs. 3.907 million, (2016: Rs. 10.500 million). Further, the movement in loan is unverified due to non availability of evidences.

j) Short term borrowing from NIB Bank Limited (now the MCB Bank Limited) amounting to Rs. 322.000 million, with accrued markup thereon of Rs. 22.174 million have been accounted for; after entering into the restructuring agreement with the bank. The amount remained unpaid till the reporting date and no source of fund is available with the Company for refund of the loan. As per the agreed terms under restructuring agreement, the complete repayment was required to made till August, 2016 and in case of any non-payment, the bank would entitled to recover 21% of unpaid amount as damages with all cost and expenses incurred for recovery of loan. The Company has breached these terms, and resultantly, the amount of damage which is Rs. 72.276 million is also become due. Further, moveable and immoveable assets of the company with receivable from customers and personal guarantees from directors and major shareholders are available with the bank as security against the loan. Financial impact of the liability and consequences of the breach have not been disclosed in the financial statements. Moreover, we did not receive any response from the bank to our request for confirmation and as such, the accurate effect of the default could not be ascertained. It is further noted that receivable from customers which are hypothecated against the loan has been significantly reduced without any impact over the loan amount and export receipts reported in income tax return is in excess of Rs. 10.358 million from receipts recorded in books.

k) Accrued liabilities amounting to Rs. 12.859 million (2016: Rs. 12.859 million) and other payable Rs. 2.029 million (2016: Rs. 2.029 million) are unverified due to lack of information and non availability of records with the management. These were not paid till the reporting date. Other payable includes payable for workers profit participation fund and, staff provident fund, on which markup is not being accrued as required under the relevant applicable regulations. Further, related trusts are not in existence. In absence of records of eligible workers, these amounts are needed to be submitted to relevant statutory authorities.

l) Due to the non availability of records of inward and outward gate passes and other relevant evidences, we were unable to perform cut off procedure and ascertain the completeness of sales and purchase transactions. Further, total receipts reported in income tax return are not reconciled with the debtors' movement, and it appears that the sale is understated by Rs. 4.745 million.

m) We were not given access to the records of personal files for verification of staff salaries. Proper record of approved payroll and payments evidence is neither maintained by the Company, nor, the available record is reconcilable. Therefore, we are unable to verify the amount of salary expense amounting to Rs. 10.409 million.

n) Confirmation request circulated to the tax advisor remained un-responded, due to which we are not aware of any liability, pending case, matters, orders and notices received by the Company.

o) The Company has maintained books of accounts. However, these are not fully conform with the repealed Companies Ordinance, 1984. Transactions have been recorded in the books on non-real time, after December, 2016 and all the transactions for this period have been accounted for, on the basis of cash flows extracted from bank statement of only on account. Moreover, narration for the transactions and reference number are not been reflected therein, nor pre-numbered approved vouchers are maintained. Most of the cash and journal transactions have been ignored to be recorded in the books of accounts. We have also come to know that there are disposals of machineries during the year under review, and no disposal has been accounted for in the books in this regard.

p) The vehicles obtained on Musharaka agreement from Faysal Bank Limited, has been sold without the consent of the bank. Considering the breach of the term, the whole obligation has been transferred to current liability. However, the disclosure of the breach is not been reflected in relevant note to the financial statements.

Because of the significance of the matters presented above we are unable to form our opinion as to whether;

i. the proper books of accounts have been kept by the Company as required by the repealed Companies Ordinance, 1984;

ii. the balance sheet and profit and loss accounts 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 the accounting policies consistently applied;

iii. the expenditures incurred during the year was for the purpose of the company's business; and

iv. the business conducted, investment made and the expenditures incurred during the year were in accordance with the objects of the Company;

Because of the significance of the matters discussed in the preceding paragraphs from (a) to (p) above, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

The financial statements of the previous year have been audited by another firm of Chartered Accountants, who has expressed an adverse opinion, based on invalid going concern assumption, non verification of short term borrowing, trade payables and pending litigations, in their report dated October 11, 2016.

S.M. Suhail & Co.

S.M. Suhail & Co.,
Chartered Accountants,
Karachi.

Engagement partner: S.M. Suhail, FCA.
Our Ref: SMS-A-2832018
Date: 12 JUN 2018