HIRA TEXTILE MILLS
L I M I T E D

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Date: 01-12-2021

Hafiz Maqsood Munshi
Manager – Compliance & Securities Compliance (RAD)
Pakistan Stock Exchange Limited
Stock Exchange Building, Stock Exchange Road,
Karachi - 74000

Independent Auditors' Report for the year Ended June 30, 2021

Dear Sir,

We refer to your letter No. PSX/GEN-2255 dated November 12, 2021 on captioned subject, and wish to state that the auditors have rendered an adverse opinion on the account due to various factors. See our comments on each of those observations, which were also addressed in the directors' report to the shareholders, along with our views:

Sr. #	Auditors Observations	Comments
1	Bankers of the Company have not responded to auditors' request for direct confirmation debt financing amounting to Rs. 1751.43 million and accrued interest thereon amounting to Rs. 395.73 million.	Due to long overdue liabilities outstanding in banks and the Company's account has been shifted to bank's SAM department/or in the court. Normally banks never respond to the direct confirmation request from the auditors.
2	Accrued interest pertaining to short term borrowings reported in the annexed financial statements are not in agreement with responses to auditors' requests for direct confirmation from the bankers of the Company. As a result, current liabilities as on June 30, 2021 are understated by Rs. 9.59 million on account of accrued interest.	The difference relates to accrued interest on short term borrowings from a banking company with which the Company has reached a settlement subsequent to the year end. The liability recognized for accrued interest is based on the amount se led with the banking company for the same. The excess liability of Rs. 9.59 million has not been recognized as the same is no longer payable.
3	As referred to in note 11 to the annexed financial statements, the Company was unable to make timely repayments of long term finances and interest thereon. As a result, the Company breached provisions of long term financing agreements with MCB Bank Limited (see note 11.2 to the annexed financial statements), National Bank of Pakistan (see note 11.3 to the annexed financial statements) and Habib Bank Limited (see note 11.5 to the annexed financial statements) whereby the entire liability under these agreements has become payable on demand. International Accounting Standard 1 'Presentation of Financial Statements' requires that if an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current. However, the Company continues to classify	The recovery of these finances is subjudice to Lahore High Court. The management intends to carry out restructuring negotiations with these bankers the results of which cannot be ascertained at this stage. Accordingly, the management has classified these liabilities as non-current.

8/12/21

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	these finances as non-current liabilities. Had these been classified as current liabilities, the total current liabilities of the Company as on 30 June 2021 would have been higher by Rs. 822.876 million.	
4	We have not received response to our request for direct confirmation from Hira Terry Mills Limited, a related party for transactions and balances amounting to Rs. 131.698 million and Rs. 184.224 million respectively. We were unable to satisfy ourselves by alternative means concerning these transactions and balances. Material adjustments to these transactions and balances with the related party may be required.	This issue was also not in our control as due to non-completion of audit they did not responded.
5	As referred to in note 22 to the annexed financial statements, the Company has presented extracts of the financial position and performance of Hira Terry Mills Limited, an associate, on the basis of financial statements that are neither audited nor authenticated by the Board of Directors of the Associate. In the absence of audited/authenticated financial statements of associate we were unable to satisfy ourselves regarding these extracts.	This issue was also not in our control as due to non-completion of audit documentation for audit of the financial statements by the associated company, the audited financial statements of the company were under finalization at the end of auditors of associated company.
6	As referred to in note 2.2 to the annexed financial statements, the Company has incurred gross loss of Rs. 134.193 million and loss after tax of Rs. 172.563 million during the year ended 30 June 2021. As on 30 June 2021, the Company has accumulated losses of Rs. 1,960.983 million. Its current liabilities exceed current assets by Rs. 1,077.059 million. The Company has not been able to make timely repayments of its debt finances and interest thereon. The providers of debt finances have filed recovery suits against the Company for Rs. 1,790.161 million. All short term borrowing facilities availed by the Company stand expired. These factors indicate existence of material uncertainty that raises doubts about the Company's ability to continue as a going concern and that the Company may not be able to discharge its liabilities and realize its assets in the normal course of business. While the Company has prepared and presented the annexed financial statements on going concern basis based on the factors explained in note 2.2, we consider that in the absence of any favourable settlement with the providers of debt finances, ability to obtain further financing and revival of its operations, the Company may not be able to se le its liabilities and realize its assets in the normal course of business.	The annexed financial statements have been prepared, ongoing concern basis, based on the following: a. The management of the company has entered into negotiation with the providers of debt finances for restructuring of long term and short term debt including accrued interest thereon. The management successfully negotiated restructuring of short term debt and long term finances, including accrued interest thereon with Faysal Bank Limited, whereby liabilities amounting to Rs. 186.703 million were converted into diminishing musharakah facilities (see note 11.4) with a grace period up to December 2020 and accrued interest amounting to Rs. 47.826 million was deferred (see note 14) with repayments commencing from December 2026. Further during the year, National Bank of Pakistan proposed a restructuring arrangement whereby the outstanding principal of long term finances and short term borrowings is proposed to be converted into new demand finances with up to two years' grace period while accrued interest together with future interest on new demand finances is proposed to be se led in instalments after the adjustment of principal liabilities. The management has accepted the proposal

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Consequently, the use of going concern assumption in the preparation of annexed financial statements is not appropriate and adjustments may be required to the amounts reported in the financial statements. The financial statements do not disclose this fact.

and the restructuring arrangement is being finalized accordingly. Subsequent to the reporting period, the Company has signed a restructuring agreement with Bank Al-Falah Limited whereby short term borrowings amounting to Rs. 198.192 million have been converted into a long term finance while payment of accrued interest amounting to Rs. 44.503 million has been scheduled to be paid in twenty-four instalments after the settlement of principal liability.

b. The management is vigorously contesting the recovery suits filed by providers of debt finances. Further, the Company has filed countersuits claiming an aggregate recovery of 1,576.351 million (see note 20.1).

c. The Company has continued financial support of its directors and sponsors. Up to 30 June 2021, the directors and sponsors of the Company has provided financial support amounting to Rs. 537.539 million.

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

Thanking you and assuring our best cooperation all times

Yours truly,

Muhammad Mahboob
(Chief Executive Officer)

Copy to:
The Director (CSD) – SECP
The Additional Director (AD-SMD) – SECP
The Chief Regulatory officer - PSX