Hamid Fabrics Limited
Notes to the Financial Statements
For the year ended September 30, 2014

SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATERIAL INFORMATION:

1. Status of the Reporting Entity

1.1. Legal Status:

Hamid Fabrics Ltd. (the "Company") is a public company limited by shares. The Company was incorporated in Bangladesh on 27 April 1995 in the name of Siddique Fabrics Ltd., as a private company limited by shares under the Companies Act, 1994. Subsequently on 23 May 2000, the name was changed to Hamid Fabrics Limited. The Company was converted to public company on 25 February 2010 vide special resolution passed in the extra ordinary general meeting after observance of required formalities. The Registered office of the Company is situated at Hamid Tower, 24 Gulshan Commercial Area, Circle – 2, Dhaka – 1212. The factory of the Company is located at Shilmondi, Narshindi.

1.2. Nature of business

The Principal activity of this Company is engaged in manufacturing and marketing of gray and finished fabrics of various qualities.

The management of the company will continue its operational existence for the foreseeable future on the basis of improved profitability and continued support its bankers, equipment vendors and other contractors, suppliers as well as related stakeholders.

2. Basis of Preparation:

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as adopted by the Institute of Chartered Accountants of Bangladesh as Bangladesh Accounting Standards (BASs) and Bangladesh Financial Reporting Standards (BFRSs).

2.2. Other Regulatory Compliances

The company is also required to comply with the following major laws and regulation in addition to the Companies Act 1994:

The Income Tax Ordinance 1984
The Income Tax Rules 1984
The Value Added Tax Act 1991
The Value Added Tax Rules 1991
The Customs Act 1969
Bangladesh Labor Law 2006
Securities and Exchange Rules 1987
Other applicable regulations

2.3. Measurement bases used in Preparing the Financial Statements

The financial statements have been prepared on a Going Concern basis. Except the carrying value of Lands and Buildings which are measured at fair value, the financial statements have been prepared on "Historical Cost" convention basis, which is one of the most commonly adopted base provided in "the framework for the preparation and presentation of financial statements" issued by the International Accounting Standard Committee (IASC).

2.4. Going Concern

The company has adequate resources to continue in operation for foreseeable future. For this reason the directors continued to adopt going concern basis in preparing the Financial Statements. The current credit facilities and resources of the company provide sufficient fund to meet the present requirements of its existing businesses and operations.

2.5. Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are reflected in measuring fair value of Land and Building, calculation of deferred tax liabilities and gratuity provision.

2.6. Functional and presentational currency and level of precision

The financial statements are prepared and presented in Bangladesh Currency (Taka), which is the company's functional currency. All financial information presented has been rounded off to t
he nearest Taka except where indicated otherwise.

2.7. Reporting period

The financial period of the company covers one year from 1 July to 30 June and followed consistently. For this Report, Financial Statement covers for the period from July 01, 2014 to September 30, 2014 along with related comparative information.

2.8. Change in Accounting Policy

There is no change in accounting policies for preparation of the Financial Statements for this year.

2.9. Date of Authorization:

This Financial Statements has been authorized for by the Board of Directors of Hamid Fabrics Limited on November 17, 2014.

2.10. Components of the Financial Statements

According to the International Accounting Standard (IAS) 1 as adopted by ICAB as BAS 1 "Presentation of Financial Statements" the complete set of financial statements includes the following components:

i) Statement of Financial Position
ii) Statement of Comprehensive Income
iii) Statement of Changes in Equity
iv) Statement of Cash Flows
v) Notes to the Financial Statements

3. Principal Accounting Policies:

The accounting policies set out below have been applied in preparations of these financial statements

3.1. Property, Plant and Equipment

3.1.1. Recognition and Measurement

Property, plant and equipment except land and building are measured at cost less accumulated depreciation and impairment losses, if any. Land and building are measured at fair value. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable expenses, inward freight, duties and non-refundable taxes.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

In accordance with the allowed alternative treatment of *IAS 23/BAS 23 "Borrowing Cost"* finance costs have been capitalized for qualifying assets.

3.1.2. Disposal of Fixed Assets

On disposal of fixed assets, the cost and accumulated depreciation are eliminated and gain or loss on such disposal is reflected in the income statement, which is determined with reference to the net book value of the assets and net sales proceeds.

3.1.3. Depreciation on Fixed Assets

Depreciation on fixed assets is charged on reducing balance method. Depreciation continues to be charged on each item of fixed assets until the written down value of such fixed assets is reduced to Taka one. Depreciation on addition to fixed assets is charged for whole year irrespective of their date of acquisition and no depreciation has been charged on fixed assets ceases irrespective of their date of disposal. The residual value, if not insignificant, is reassessed annually.

Rates of depreciation on various classes of fixed assets are as under:

Category of fixed asset	Rate (%)
Building and Civil Works	5
Plant and Machinery	5
Electrical & Gas Installation	10
Furniture and Fixtures	15
Office equipment	15
Vehicles	20

Land is not depreciated as it deemed to have an infinite life.

3.1.4. Revaluation:

During the period no assets were revalued but it was estimated that fair value of above assets were higher than the book value.

3.1.5. Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the profit and loss account as incurred.

3.1.6. Impairment of Assets

No fact and circumstances indicate that company's assets including property, plant and equipment may be impaired. Hence, no evaluation of recoverability of assets was performed.

3.2. Intangible Asset

3.2.1. Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment loss, if any. Intangible asset is recognized when all the conditions for recognition as per BAS 38: Intangible assets are met. The cost of an intangible asset comprises its purchase price, import duties and non-refundable taxes and any directly attributable cost of preparing the asset for its intended use.

3.2.2. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the profit and loss account when incurred.

3.2.3. Amortization

Amortization is recognized in the statement of comprehensive income on reducing balance method. Amortization rate for intangible assets (computer software) is 20 % per years.

3.3. Leased Assets

Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition these leased assets are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3.4. Investment in FDR

Investment in FDR includes fixed deposits held with various banking and non-banking financial institutions in the name of Hamid Fabrics Limited. The fixed deposits are renewed upon maturity at the option of the company.

3.5. Inventories

Inventories are stated at the lower of cost and net realizable value in accordance with BAS -2 “Inventories”. The cost of inventories is based weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Adequate allowance is made for obsolete, damaged and slow moving inventories.

3.6. Trade Debtors

Accounts receivable has been stated at its original invoiced amount supported by L/C. This is considered good and is falling due within one year. Related party transactions relating to sales/purchase are made on arm length basis. Rate of sale/purchase of related party transactions are fixed as applicable to other outsider parties.

3.7. Advance, Deposits and Prepayments

Advances are initially measured at cost. After initial recognition advances are carried at cost less deductions, adjustments or charges to other account heads such as PPE or inventory etc.

Deposits are measured at payment value.

Prepayments are initially measured at cost. After initial recognition prepayments are carried at cost less charges to profit and loss account.

3.8. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Amount of Cash and Cash Equivalent under USD has been reflected in BDT and exchange rate fluctuation has been recognized accordingly.

3.9. Other Current Assets

Other current assets have a value on realization in the ordinary course of the company's business which is at least equal to the amount at which they are stated in the balance sheet.

3.10. Trade Creditors and Accruals

Trade and other payables are stated at cost.

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Trade Creditors under foreign currency has been presented in BDT and fluctuation loss has been charged to Profit and Loss Account.

3.11. Loans and Borrowing

Principal amounts of loans and borrowings are stated at their outstanding amount. Borrowings repayable after twelve months from the reporting date are classified as non-current liabilities whereas the portion payable within twelve months, unpaid interest and other charges are classified as current liabilities.

3.12. Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably as provided in BAS 18 “Revenue” and there is no continuing management involvement with the goods.

3.13. Foreign Exchange

Transactions in foreign currencies are translated at the average rate of the month. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Bangladesh Taka at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement in accordance with BAS 21 “The effects of Changes in Foreign Currency Rates.”

3.14. Employee Retirement Benefits

Defined Contribution Plan

Obligations for the Company’s contributions to defined contribution plans (provident fund and Workers Profit Participation Fund) are recognized as an expense in the income statement as incurred.

Defined Benefit Plan

The Company operates an unfunded Gratuity Scheme which is considered as Defined Benefit Plan. The present value of the obligation for a defined benefit plan is measured using the Projected Unit Credit method. As the Gratuity Scheme is fairly new and the numbers of staffs, who have completed the required service qualification period of five years, are limited, no professional actuarial assessment of the Gratuity obligation is performed at Reporting Date. However, based on the review of undiscounted value of the present gratuity obligation Management is confident that the actuarial assessment will not result in any significant difference with the gratuity provision recorded.

3.15. Finance Income and Expenses

Finance income comprises interest income on funds invested Interest income is recognized on maturity.

Finance expenses comprise interest expenses on loan, overdraft and bank charges. All borrowing costs are recognized in the profit and loss account using effective interest method except to the extent that they are capitalized during constructions period of the plants in accordance with BAS-23 Borrowing cost.

3.16. Earnings Per Share (EPS)

The Company calculates Earning per Share (EPS) in accordance with BAS 33: Earning per Share, which has been shown on the face of Statement of Comprehensive Income account, and the computation of EPS is stated in related note.

Basic earnings

This represents earnings for the year attributable to ordinary shareholders. As there was no preference dividend, minority or extra ordinary items, the net profit after tax for the year has been considered as fully attributable to the ordinary shareholders.

Weighted average number of ordinary shares outstanding during the year

This represents the number of ordinary shares outstanding at the beginning of the year plus the number of shares issued during the year multiplied by a time-weighting factor. The time weighting factor is the numbers of days the specific shares are outstanding as a proportion of the total number of days in the year.

Basic earnings per share
This has been calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding for the year.

Diluted earnings per share
No diluted earnings per share are required to be calculated per year as there was no scope for dilution during the year.

3.17. Cash flows statement

Cash Flow Statement is prepared in accordance with BAS 7 “Cash Flow Statement”. The cash flow from the operating activities have been presented under Direct Method as prescribed by the Securities and Exchange Rules 1987 and considering the provisions of Paragraph 18(a) of BAS-7 which provides that “Enterprises are encouraged to report Cash Flow from Operating Activities using the Direct Method”.

3.18. Responsibility for Preparation and Presentation of Financial Statements:

The Management is responsible for the preparation and presentation of Financial Statements under section 183 of the Companies Act, 1994 and as per the Provision of “The Framework for the preparation and presentation of Financial Statements” issued by the International Accounting Standard Board (IASB) as adopted by the Institute of The Chartered Accountants of Bangladesh (ICAB).

3.19. Risk and uncertainties for the use of estimates in preparing financial statements

Preparation of Financial Statements in conformity with the Bangladesh Accounting Standards requires management to make estimates and assumption that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and revenues and expenses during the period reported. Actual result could differ from those estimates. Estimates are used for accounting of certain items such as depreciation and amortization, taxes, reserves and contingencies.

3.20. Comparative Amounts

Certain comparative amounts have been re-classified & rearranged to confirm with the current year's presentation.

3.21. Event after the reporting period

Events after the reporting period that provide additional information about the company’s positions at the balance sheet date are reflected in the financial statements if any.

3.22. Related Party Transactions

The objective of Related Party Disclosure IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

The Company transacts with related parties and recognize as per BAS 24 'Related Party Disclosures'.
Related party transactions have been disclosed under Note – 36.

3.23. Contingent Liabilities and Assets

Contingent liabilities and assets are current or possible obligations or assets, arising from past events and whose existence is due to the occurrence or non-occurrence of one or more uncertain future events which are not within the control of the company. No contingent liabilities and assets were recognized in the financial statements for the year as no such event existed.

4. Taxation

4.1 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Provision for corporate income tax is made @ 15% on estimated taxable profit in accordance with the income tax laws. The corporate income tax assessment of the Company is completed up to the assessment year 2013-2014 (accounting year ended 30 June 2013) and tax liability is settled in full.

4.2 Deferred Tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.