

SUNRAYS TEXTILE MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

1. GENERAL INFORMATION

- 1.1** The company was incorporated in Pakistan on August 27, 1987 as a Public Company and its shares are quoted on Karachi Stock Exchange.

The company is principally engaged in trade, manufacture and sale of yarn .

The registered office of the company is situated at Karachi. The Mill is located at District Muzaffargarh, Dera Ghazi Khan Division, in the province of Punjab.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

Adoption of new International Financial Reporting Standards

In the current year, the company has adopted all new Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for company's accounting period beginning on July 01, 2007. The adoption of these new Standards and Interpretations has resulted in no changes to the Company's accounting policies in the following areas:

- IFRS 2 - Share based payment
- IFRS 3 - Business combinations
- IFRS 5 - Non-current assets held for sale and discontinued operations

New accounting standards and IFRS interpretations that are not yet effective

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them.

Effective from accounting period beginning on or after April 28, 2008

IAS 29 - Financial Reporting in Hyperinflationary Economies

Effective from accounting period beginning on or after April 28, 2008

IFRS 7 - Financial Instruments: Disclosures

Effective from accounting period beginning on or after January 01, 2009

IFRS 8 - Operating Segments

Effective from accounting period beginning on or after January 01, 2008

IFRIC 12 - Service Concession Agreements

Effective from accounting period beginning on or after July 01, 2008

IFRIC 13 - Customer Loyalty Programs

Effective from accounting period beginning on or after January 01, 2008

IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective from accounting period beginning on or after January 01, 2009

IFRIC 15 - Agreements for the Construction of Real Estate

Effective from accounting period beginning on or after October 01, 2008

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

2.2 Accounting Convention

These financial statements have been prepared under historical cost convention except indicated in note 2.3 and 2.5.

The preparation of financial statements in conformity with IASs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of fixed 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, the results of which form the basis of making the judgment about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on the ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, provision for doubtful receivables and slow moving inventory. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustments to the carrying amounts of assets and liabilities in the next year.

2.3 Staff retirement benefits

The company operates an unfunded gratuity scheme covering all its employees. The cost of providing benefit is determined using the projected unit credit method, with actuarial valuation. Actuarial gains and losses which exceed 10 percent of the present value of the company's gratuity obligation are amortized over the expected average remaining working life of the employees. Past service cost is recognized immediately to the extent that the benefits are already vested. Otherwise it is amortized on a straight line basis over the average period until the amended benefits become vested.

Details of the scheme are given in the note 18.1 to these financial statements.

2.4 Taxation

Current

Provision for current taxation is based on taxable income at the current tax rates after taking into account tax rebates and tax credits available, if any, or minimum tax under section 113 of Income Tax Ordinance 2001, whichever is higher. The charge for current tax is calculated using prevailing tax rates expected to apply to the profit for the year. The charge for current tax also includes adjustments where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such earlier years.

Deferred

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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 Institute of Chartered Accountants of

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 profit will be available against which such temporary differences and tax losses can be utilized.

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

2.5 Property, plant and equipment

Property, plant and equipment except freehold land and capital work in progress are stated at cost or revalued amount less accumulated depreciation and any identified impairment in value. Freehold land is stated at revalued amount being the fair value at the time of valuation determined by market value. Cost includes borrowing cost in respect of qualifying assets as stated in note 2.21.

For capital work in progress, all costs / expenditure connected with specific assets are collected under this head. These are transferred to specific assets as and when assets are available for use.

Depreciation is charged to income applying the reducing balance method at the rates specified in the note 3.1

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.

Impairment loss or its reversal, if any, is charged to income. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets revised carrying amount over its estimated useful life.

Surplus arising on revaluation is credited to surplus on revaluation of property, plant and equipment. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is transferred by the company to its unappropriated profit.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of assets are included in current year income.

2.6 Investment property

Investment property is recognised at historical cost.

2.7 Stores and spares

These are valued at cost, determined on the basis of moving average cost less allowance for obsolete and slow moving items, except for items-in-transit which are valued at cost accumulated to the balance sheet date.

2.8 Stock-in-trade

These are valued at lower of cost and net realizable value. Cost is determined by applying following basis;

Raw material	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average cost of goods manufactured
Waste	Net realizable value

Net realizable value signifies the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.9 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 year end. Balances considered bad and irrecoverable are written off when identified.

2.10 Foreign currency translation

All monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange ruling on the balance sheet date, except those covered under forward exchange contract and exchange risk cover scheme which are translated at the cover rate. Transactions in foreign currency are translated into Pak rupees at the rate of exchange ruling at the date of transaction except for those covered under forward exchange contract which are translated at the cover rate.

2.11 Financial instruments

Financial instrument is recognized using trade date accounting basis, when the company becomes the party to the contractual provisions of the instrument.

Financial assets

All financial assets are initially recognized at nominal value of the consideration paid. Subsequent to initial recognition these are remeasured to fair value except financial assets whose fair value cannot be measured reliably. Any gain or loss is included in current year income.

Financial liabilities

All financial liabilities are initially recognized at nominal value of consideration received. Subsequent to initial recognition, financial liabilities are recognized at fair value, amortized cost or cost as the case may be. Any gain or loss is included in current year income.

2.12 *Off setting of financial instruments*

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 *Provision*

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made to the amount of obligation.

2.14 *Impairment*

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax 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 recognised 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 carrying amount that would have been determined, had no impairment loss been recognised for assets in prior year. Reversal of impairment loss is recognised as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

2.15 *Trade and other payables*

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

2.16 *Lease*

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligations of lease are accounted for as liabilities. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of financial cost on the remaining balance of principal liability for each period. Depreciation is charged at the rates stated in note 3.1 applying reducing balance method to write off a cost of the assets over its

estimated useful life in view of certainty of ownership of assets at the end of the lease period.

All other leases are classified as operating leases.

Rental Income from operating lease is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognized as expense on a straight-line basis over the lease term.

2.17 Related party transactions and transfer pricing

Transactions and contracts with related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

2.18 Revenue recognition

Sales are recorded on dispatch of goods to customers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.19 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash and cheques in hand, balances with banks on current and saving and deposit accounts.

2.20 Dividend

The dividend declared is recognized as a liability in the period in which it is declared.

2.21 Borrowing cost

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. All other borrowing costs are charged to income in the period in which these are incurred.

2.22 Government grants

Government grants that compensate the company for expenses incurred is recognised in the profit and loss account on a systematic basis in the same period in which the expenses are recognised. Government grants are deducted in reporting the related expense.

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
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3. PROPERTY, PLANT AND EQUIPMENT

Operating assets	3.1	913,336,720	936,175,877
Capital work in progress	3.6	3,243,783	3,429,246

916,580,503	939,605,123
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4. INVESTMENT PROPERTY

Investment property comprise of land which is not used by the company for business purpose. The fair value of land at the end of the year is Rs. 2,500,000 (2007 : Rs. 2,500,000).

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
5. LONG TERM DEPOSITS			
Security deposit		435,200	435,200
Lease key deposit	5.1	5,503,228	825,300
		<u>5,938,428</u>	<u>1,260,500</u>

5.1 Lease key deposit

Opening balance		825,300	857,500
Add: Lease key money on lease obtained during the year		4,677,928	-
Less: Transfer to short term deposits	10	-	32,200
		<u>5,503,228</u>	<u>825,300</u>

6. STORES AND SPARES

Stores		13,657,688	16,208,037
Spares		6,071,545	5,700,079
		<u>19,729,233</u>	<u>21,908,116</u>

6.1 The company does not hold any stores and spares for specific capitalization.

7. STOCK-IN-TRADE

Raw material			
- Spinning unit		894,447,501	302,548,833
- In transit		-	54,053,954
		894,447,501	356,602,787
Work in process		11,610,225	11,248,435
Finished goods			
- Spinning unit		27,429,218	30,691,955
- Ginning factory		11,350	11,350
		27,440,568	30,703,305
Waste		4,419,508	1,950,944

937,917,802	400,505,471
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<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
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8. TRADE DEBTS

Foreign - secured against foreign bills		
Considered good	24,972,361	39,051,725
Local - unsecured		
Considered good	110,002,967	66,979,309
Considered doubtful	814,018	814,018
	110,816,985	67,793,327
Provision for doubtful debts	(814,018)	(814,018)
	134,975,328	106,031,034

8.1 It includes Rs. 3,960,197 (2007 : Rs.13,430,138) due from Indus Home Co. Limited an associated undertaking. Maximum aggregate balance at the end of any month during the year was Rs.13,982,745 (2007 : Rs.11,033,129).

9. LOANS AND ADVANCES

- Considered good

Due from employees	4,081,453	2,069,978
Advances		
Income tax	3,303,466	6,948,526
Suppliers/ services	12,258,584	5,023,029
Contractor	387,681	55,681
Letters of credit, fee margin and expenses	105,247	28,094,349
	20,136,431	42,191,563

10. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

Security deposits	111,200	111,200
Lease key money deposits	-	32,200
Bank guarantee margin	6,671,940	5,369,051
Prepayments	10,746	441,784
	6,793,886	5,954,235

11. TAX REFUND DUE FROM GOVERNMENT

Income tax refundable	9,884,736	11,856,166
Sales tax refundable	15,538,433	10,237,402
	25,423,169	22,093,568

12. OTHER RECEIVABLES

- Considered good

Insurance claim receivables	1,757,082	2,813,000
Others	91,372	245,343

1,848,454	3,058,343
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Note **2008** **2007**
Rupees **Rupees**

13. CASH AND BANK BALANCES

Cash in hand	53,906	164,178
Cash at banks		
Current accounts	20,014,932	13,411,754
Escrow accounts	20,582	20,582
Deposit accounts	2,390	2,390
Saving accounts	5,202,287	1,520,094
	25,240,191	14,954,820
	25,294,097	15,118,998

13.1 Effective mark-up rate in respect of saving and deposit accounts ranges from 6% to 9% (2007 : 5% to 8%) per annum.

14. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2008 **2007**
Number of Shares

6,900,000	6,900,000	Ordinary shares of Rs.10/- each fully paid in cash	69,000,000	69,000,000
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14.1 There were no movements during the reporting period.

14.2 The company has one class of ordinary shares which carry no right to fixed income.

15. SURPLUS ON REVALUATION OF FIXED ASSETS

Balance at the beginning of the year	233,914,574	47,550,772
Addition during the year	-	189,769,820
	233,914,574	237,320,592
Less: Transferred to unappropriated profit on account of:		
disposal of operating assets	-	336,057
incremental depreciation	12,374,247	3,069,961
	12,374,247	3,406,018
	221,540,327	233,914,574
Related deferred tax liability	(47,371,515)	(48,502,669)
	174,168,812	185,411,905

15.1 Surplus on revaluation of fixed assets determined as on:

	<i>Note</i>	Rupees
September 30, 1996	3.3	142,334,216

June 30, 2007

3.3

189,769,820

Note **2008**
Rupees **2007**
Rupees

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Balance at the beginning of the year	12,840,826	16,672,541
Assets acquired during the year	66,827,544	-
	<u>79,668,370</u>	<u>16,672,541</u>
Less: Repayments during the year	4,391,681	3,831,715
	<u>75,276,689</u>	<u>12,840,826</u>
Less: Current portion shown under current liabilities	17,212,706	4,384,154
	<u>58,063,983</u>	<u>8,456,672</u>

17.1 This represents finance lease agreements entered into with the leasing companies for plant and machinery and motor vehicles. The total lease rentals due under various lease agreements are payable in periodic installments by June 2012. Overdue rental payments are subject to an additional charge of 3 % per month. Taxes, repairs, replacement and insurance costs are to be born by the company. In case of termination of agreement, the company has to pay the agreed loss value and lessor can take back possession of the equipment. Financing rates of approximately 11.62% to 14.46% (2007 : 11.62% to 12.8%) per annum have been used as discounting

17.2 The residual value of leased assets amounts to Rs. 5,503,228 (2007 : Rs. 857,500), with purchase option at end of lease period.

17.3 The future minimum lease payments and their present value, to which the company is committed under lease agreements are:

	<i>Up to one year Rupees</i>	<i>From two to five years Rupees</i>	2008 Rupees
Minimum lease payment	26,265,848	70,688,480	96,954,328
Less: Financial charges allocated to future periods	9,053,142	12,624,497	21,677,639
Present value of minimum lease payments	<u>17,212,706</u>	<u>58,063,983</u>	75,276,689
Less: Current portion shown under current liabilities			<u>17,212,706</u>
			<u>58,063,983</u>

	<i>Up to one year Rupees</i>	<i>From two to five years Rupees</i>	2007 Rupees
Minimum lease payment	5,621,326	9,385,745	15,007,071
Less: Financial charges allocated to future periods	1,237,172	929,073	2,166,245
Present value of minimum lease payments	<u>4,384,154</u>	<u>8,456,672</u>	12,840,826
Less: Current portion shown under current liabilities			4,384,154

8,456,672

<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
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18. DEFERRED LIABILITIES

Staff retirement benefits - gratuity	18.1	9,220,821	2,654,591
Deferred taxation	18.2	87,728,039	79,920,034
		<u>96,948,860</u>	<u>82,574,625</u>

18.1 Staff retirement benefits - gratuity

The amounts recognized in the balance sheet are as follows:

Present value of defined benefit obligation	9,158,341	2,949,242
Benefit payable	62,480	-
Unrecognized actuarial losses	-	(294,651)
	<u>9,220,821</u>	<u>2,654,591</u>

The following amounts have been charged to the profit and loss account during the year in respect of the scheme: -

Current service cost	2,486,961	1,304,467
Interest cost	265,432	417,001
Recognised actuarial losses	6,440,170	-
	<u>9,192,563</u>	<u>1,721,468</u>

Movement in the liability recognized in the balance sheet is as follows: -

Balance at the beginning of the year	2,654,591	4,338,693
Amount recognized during the year	9,192,563	1,721,468
	11,847,154	6,060,161
Gratuity paid during the year	(2,626,333)	(3,405,570)
Balance at the end of the year	<u>9,220,821</u>	<u>2,654,591</u>

The future contribution rates of these plans include allowances for deficit and surplus. The company's policy with regard to actuarial gains/ losses is to follow minimum recommended approach under IAS-19 (Employee Benefits).

As per actuarial valuation carried out as at June 30, 2008 by Nauman Associates using Projected Unit Credit (PUC) Actuarial Cost Method, the following significant assumptions have been used for calculation of these plans.

	<i>2008</i>	<i>2007</i>
Discount rate	12%	9%
Expected rate of salary increase in future years	11%	8%
Average expected remaining working life time of employees	5 year	5 year

18.2 Deferred taxation

The deferred liability comprises of temporary differences arising due to:

	<i>Note</i>	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
Taxable temporary differences			
Surplus on revaluation of fixed assets		47,371,515	48,502,669
Accelerated tax depreciation and finance lease		53,577,056	54,781,944
		<u>100,948,571</u>	<u>103,284,613</u>
Deductible temporary differences			
Provision for gratuity		(2,732,231)	(736,384)
Taxable loss		(10,488,301)	(22,628,195)
		<u>87,728,039</u>	<u>79,920,034</u>

19. TRADE AND OTHER PAYABLES

Creditors		32,921,060	26,779,825
Accrued liabilities		24,928,988	25,443,307
Advance from customers		2,076,065	3,031,888
Due to associated undertakings		3,367,358	5,496,391
Due to directors		360,873	318,365
Due to employees		274,404	210,014
Workers' profit participation fund	19.1	1,081,950	871,086
Workers' welfare fund		1,089,556	328,166
Tax deducted at source		108,878	507,394
Unclaimed dividend		2,813,483	2,854,220
Other payable		1,000	-
		<u>69,023,615</u>	<u>65,840,656</u>

19.1 Workers' Profit Participation Fund

Opening balance		871,086	1,519,436
Interest on funds utilized in company's business	31	99,280	142,327
		<u>970,366</u>	<u>1,661,763</u>
Payment to the fund		(970,366)	(1,661,763)
		<u>-</u>	<u>-</u>
Allocation for the year	30	1,081,950	871,086
		<u>1,081,950</u>	<u>871,086</u>

20. MARK UP ACCRUED ON LOANS

Mark-up accrued on secured			
Long term financing		9,700,141	8,190,886
Liabilities against assets subject to finance lease		144,404	72,460
Short term borrowings		16,696,431	7,647,909

26,540,976	15,911,255
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<i>Note</i>	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
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21. SHORT TERM BORROWINGS

- Banking companies

Secured		
Cash finances	569,367,512	141,941,560
Running finances	270,683,876	76,151,021
Short term demand finances	-	50,000,000
Finances on imported merchandise	24,347,336	159,967,694
Unsecured		
Bank overdraft	204	-
	<u>864,398,928</u>	<u>428,060,275</u>

21.1 Short term facilities available from commercial banks under mark up arrangements amounts to Rs.1,350 million (2007: Rs.1,430 million) of which facilities aggregating to Rs. 413 million (2007 : Rs. 927 million) remained unutilized at the year end. The rate of mark up ranges from 10.15% to 13.56% per annum (2007 : 9.12% to 11.62% per annum) payable on quarterly basis. These finances are secured against pledge of raw material and finished goods, hypothecation of store and spares and charged on fixed and floating assets of the company. These finances will expire on November 30, 2008.

22. CURRENT PORTION OF NON-CURRENT LIABILITIES

Long term financing	16	106,066,668	91,775,604
Liabilities against assets subject to finance lease	17	17,212,706	4,384,154
		<u>123,279,374</u>	<u>96,159,758</u>

23. CONTINGENCIES AND COMMITMENTS

Contingencies

Bank / financial institution / insurance guarantees	23.1	40,938,790	38,881,010
Foreign bills purchased		26,546,000	2,294,000
		<u>67,484,790</u>	<u>41,175,010</u>

Commitments

Under letters of credit			
Raw material		-	117,237,101
Plant and machinery		29,326,000	14,091,826
Stores and spares		10,490,453	576,725
		<u>39,816,453</u>	<u>131,905,652</u>

23.1 Bank / financial institution/ insurance guarantees

<i>In favour of</i>	<i>Bank Name</i>		
Multan Electric Power Company	MCB Bank Limited	5,081,010	5,081,010
Sui Northern Pipelines Limited	MCB Bank Limited	13,857,780	17,800,000
Excise and taxation	Soneri Bank Limited	22,000,000	16,000,000

40,938,790	38,881,010
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<i>Note</i>	2008 Rupees	2007 Rupees
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24. SALES

Yarn			
Export		243,694,991	365,497,050
Local		1,618,028,693	1,311,669,454
Doubling		2,292,752	721,000
		<u>1,864,016,436</u>	<u>1,677,887,504</u>
Waste			
Local		38,073,269	26,480,330
		<u>1,902,089,705</u>	<u>1,704,367,834</u>
Less:			
Commission		12,699,934	15,443,733
		<u>1,889,389,771</u>	<u>1,688,924,101</u>

25. COST OF SALES

Cost of goods manufactured	25.1	1,655,300,628	1,422,631,090
Finished goods			
Opening stock		32,642,899	30,625,529
Purchase of finished goods		54,506,286	136,116,483
Closing stock		(31,848,726)	(32,642,899)
		<u>55,300,459</u>	<u>134,099,113</u>
		<u>1,710,601,087</u>	<u>1,556,730,203</u>

25.1 Cost of goods manufactured

Raw material consumed	25.1.1	1,326,420,989	1,116,287,761
Stores and spares consumed		19,735,775	25,407,363
Packing material consumed		22,650,932	23,066,249
Salaries, wages and benefits	25.1.2	85,309,437	75,243,359
Power and fuel		106,474,379	103,058,230
Insurance		2,615,054	1,970,163
Repairs and maintenance		7,212,194	7,834,745
Depreciation	3.2	84,944,418	71,716,974
Others		299,240	237,839
		<u>1,655,662,418</u>	<u>1,424,822,683</u>
Work in process			
Opening stock		11,248,435	9,056,842
Closing stock		(11,610,225)	(11,248,435)
		<u>(361,790)</u>	<u>(2,191,593)</u>
		<u>1,655,300,628</u>	<u>1,422,631,090</u>

	<i>Note</i>	2008 Rupees	2007 Rupees
25.1.1 Raw material consumed			
Opening stock		302,548,833	302,475,748
Purchases including purchase expenses		1,918,319,657	1,054,834,849
Transferred from ginning unit		-	61,525,997
		1,918,319,657	1,116,360,846
		2,220,868,490	1,418,836,594
Closing stock		(894,447,501)	(302,548,833)
		1,326,420,989	1,116,287,761

25.1.2 It includes Rs. 7,618,739 (2007 : Rs.1,372,968) in respect of staff retirement benefits.

26. OTHER OPERATING INCOME

Gain on sale of operating assets	-	20,777,533
Interest on deposits	62,996	172,105
Other	10,222	-
	73,218	20,949,638

27. PROFIT ON TRADING OF COTTON LINT

Cotton lint sold during the year	-	46,926,464
Less: Purchase including purchase expenses of cotton lint sold during the year	-	46,741,711
	-	184,753

28. DISTRIBUTION COST

Export development surcharge	578,785	836,070
Ocean freight	4,501,709	6,105,453
Forwarding	1,343,297	2,361,151
Local freight	8,790,332	6,539,525
Others	3,407,065	2,284,362
	18,621,188	18,126,561

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
29. ADMINISTRATIVE EXPENSES			
Director's remuneration		1,200,000	600,000
Staff salaries and benefits	29.1	14,313,497	12,648,512
Postage, telephone and telex		1,491,032	1,636,913
Vehicle running and maintenance		2,448,459	2,780,849
Traveling and conveyance		2,240,124	1,639,531
Printing and stationery		831,490	444,819
Entertainment		363,717	320,850
Fees, subscription and periodicals		347,240	475,132
Auditors' remuneration	29.2	370,000	248,000
Legal and professional charges		272,000	115,500
Rent, rates and taxes		680,646	479,325
Repairs and maintenance		242,435	206,954
Insurance		955,496	1,055,002
Donations	29.3	524,100	726,061
Depreciation	3.2	4,852,240	5,938,264
Others		1,159,366	951,337
		32,291,842	30,267,049

29.1 It includes Rs. 1,573,824 (2007 : Rs. 348,500) in respect of staff retirement benefits.

29.2 Auditors' remuneration

M. Yousuf Adil Saleem & Co.			
Statutory audit fee		250,000	175,000
Code of corporate governance review		40,000	40,000
Half yearly review		50,000	33,000
Certification		30,000	-
		370,000	248,000

29.3 None of the directors or his / her spouse had any interest in the donee's fund.

30. OTHER OPERATING EXPENSES

Loss on disposal of operating assets	3.5	19,226	436,445
Provision for doubtful debts		-	314,018
Workers' welfare fund		761,390	328,166
Workers' profit participation fund		1,081,950	871,086

1,862,566	1,949,715
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<i>Note</i>	2008 Rupees	2007 Rupees
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31. FINANCE COST

Mark-up on secured:		
Long term financing	32,378,009	35,880,509
Liabilities against assets subject to finance lease	1,099,367	1,680,963
Short term borrowings	71,359,779	46,881,510
Bank charges and commission	1,453,482	2,319,525
Interest on worker's profit participation fund	99,280	142,327
	<u>106,389,917</u>	<u>86,904,834</u>

31.1 The Company applied for subsidy @ 3% granted for spinning sector as per SBP Circular 6 dated October 30, 2007. During the year, the company adjusted the sanctioned amount of Rs. 3.74 million against interest/ mark up on long term financing.

32. PROVISION FOR TAXATION

For the year:		
Current	9,510,449	8,521,839
Prior	398,117	227,599
	<u>9,908,566</u>	<u>8,749,438</u>
Deferred taxation	8,939,159	(862,164)
	<u>18,847,725</u>	<u>7,887,274</u>

32.1 Relationship between tax expense and accounting profit

The relationship between tax expense and accounting profit has not been presented in the financial statements as the total income of the company attracts the minimum tax under section 113 of the Income Tax Ordinance, 2001.

33. EARNINGS PER SHARE

Profit after tax	<u>848,664</u>	<u>8,192,856</u>
	<i>Number of Shares</i>	
Weighted average number of ordinary shares outstanding	<u>6,900,000</u>	<u>6,900,000</u>
	<i>Rupees</i>	
Earnings per share	<u>0.12</u>	<u>1.19</u>

33.1 There is no dilutive effect on the basic earnings per share of the company.

	2008	2007
	Rupees	Rupees

34. REMUNERATION TO CHIEF EXECUTIVE OFFICER

Remuneration	660,000	330,000
House rent allowance	540,000	270,000
	<u>1,200,000</u>	<u>600,000</u>
Number of persons	<u>1</u>	<u>1</u>

34.1 Chief executive officer and a director are entitled to free use of company maintained cars. The monetary values are approximately Rs.655,550 (2007 : Rs.528,798).

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits company exposure of credit risk through monitoring of customers' credit exposure and conservative estimates of provision for doubtful receivable. The management is of the view that it is not exposed to significant concentration of credit

35.2 Liquidity risk

The company's management closely monitors the company's liquidity and cash flow position.

35.3 Foreign exchange risk

Foreign exchange risk arises when receivables and payables exist due to transactions with foreign

35.4 Fair values of financial instruments

The net fair value of all financial instruments has been based on the valuation methodology outlined below: -

35.5 Non-current liabilities

For all non-current liabilities the fair values have been taken at book values as these are not considered materially different based on the current market rates of return and reprising profiles of similar non-current liabilities.

35.6 Other financial instruments

The fair values of all other financial instruments are considered to approximate their book values as they are

short term in nature.

36. CAPITAL MANAGEMENT

The company objectives when managing are: -

- to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholder, and
- to provide an adequate return to share holder by pricing products and services commensurately with the level of risk.

Capital comprises all components of equity (i.e. share capital, capital reserve - share premium, general reserve and unappropriated profit). In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholder or issue new share.

37. AGGREGATE TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, other related group companies, directors of the company and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables and remuneration of Chief Executive Officer is disclosed in note 34. Other significant transactions with related parties are as follows: -

	2008	2007
	Rupees	Rupees
Sale of goods and services	429,352,640	339,674,902
Sale of operating assets	-	41,666,000
Purchase of goods and services	28,966,244	49,108,436
Purchase of operating assets	1,540,221	12,405,590

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

	2008	2007
Number of spindles installed	33,072	33,072
Number of spindles worked	32,171	32,780
Number of shifts/ day	3	3
Installed capacity after conversion into 20/s count Kgs.	11,293,286	11,293,286
Actual production of yarn after conversion into 20/s count Kgs.	9,837,757	10,582,306

Reasons for short fall

It is difficult to describe precisely the production capacity in spinning unit since it fluctuates widely depending on various factors such as count of yarn spun, spindles speed and twist etc. It also varies according to the pattern of

production adopted in a particular year.

39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on..... by the Board of Directors of the company.

40. RECLASSIFICATIONS

Following reclassifications/ rearrangements have been made in the financial statements for better presentation: -

<i>Previous classification/ arrangement</i>	<i>Current classification/ arrangement</i>	<i>Rupees</i>
Due to employees	Due to directors	318,365
Letters of credit, fee margin and expenses	Suppliers/ services	741,886
Other receivable	Tax refund due from Government	22,093,568

41. GENERAL

Figures have been rounded off to the nearest rupee, except stated otherwise.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER