

SUNRAYS TEXTILE MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. GENERAL INFORMATION

- 1.1** The company is limited by shares incorporated in Pakistan on August 27, 1987 under the Companies Ordinance, 1984 and listed at Karachi Stock Exchange. The principal business of the Company is 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 Accounting Convention

These financial statements have been prepared under "Historical cost convention" except indicated in note 2.6 and 2.11.

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.

2.2 Statement of compliance

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

Last year as per SRO 684 (1) 2004 dated August 10, 2004 issued by the Central Board of Revenue, the Company's tax year / financial year was required to end on June 30, instead of September 30 as per practice in previous years. In order to make the Company's accounting period consistent with the aforementioned requirement the Company had prepared the financial statements covering period of nine months ended on June 30, 2005. Since the audited comparative figures available are for the nine months ended June 30 2005 the same have been disclosed as comparatives. Hence, the comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable.

2.3 Adoption of revised International Accounting Standards

In the current year, the Company has adopted all of revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting period beginning on or after January 01, 2005. The adoption of these revised Standards and Interpretations has resulted in no changes to the Company's accounting policies except IAS 16 Property, plant and equipment as stated in note 2.6.

2.4 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. The actuarial valuation has been carried out as at June 30, 2005. 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.

2.5 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. 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 accounted for using the balance sheet liability method in respect of all temporary differences arising from difference between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and credits can be utilized.

Deferred tax is calculated at rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case it relates to items credited or charged to equity in which case it is included in the equity.

2.6 Property, plant and equipment

Property, plant and equipment except freehold land and capital work in progress are stated at cost or valuation 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 / depreciated replacement cost. Cost includes borrowing cost in respect of qualifying assets as stated in note 2.22.

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 13.

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.

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.

2.7 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

Known bad debts are written off and provision is made for debts considered doubtful.

2.10 Foreign Currency Translation

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 received. 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 management assesses at each balance sheet date whether there is any indication that an asset except deferred tax asset is impaired. If any such indication exists, the management estimates the recoverable amount of the asset. If the recoverable amount of the asset is less than carrying amount of the asset is reduced to its recoverable amount by charging the impairment loss against income for the year.

Where the impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. 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 13.1 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 recognised 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 recognised 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 savings and deposits accounts.

2.20 Dividend

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

2.21 Investment property

Investment property is recognised at historical cost.

2.22 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.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2006	2005		2006	2005
Number of shares			Rupees	Rupees
6,900,000	6,900,000	Ordinary shares of Rs. 10 each fully paid in cash	<u>69,000,000</u>	<u>69,000,000</u>

3.1 There were no movements during the reporting periods.

4. SURPLUS ON REVALUATION OF OPERATING ASSETS

Balance at the beginning of the year / period	51,658,528	57,367,591
Transferred to unappropriated profit on account of:		
- disposal of operating assets	-	2,352,401
- incremental depreciation	4,107,757	3,356,662
	<u>4,107,757</u>	<u>5,709,063</u>
	47,550,771	51,658,528
Less: Related deferred tax liability	<u>(13,912,984)</u>	<u>(7,978,829)</u>
	<u>33,637,787</u>	<u>43,679,699</u>

Revaluation of freehold land excluding non operating land, building on freehold land and plant and machinery was carried out as on September 30, 1996 by an independent valuer M/s Iqbal A. Nanjee & Company, Lahore on the basis of depreciated replacement values. Revaluation surplus has been credited to Surplus on Revaluation of Fixed Assets.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2006 Rupees	2005 Rupees
Balance at the beginning of the year / period		2,840,165	11,653,971
Assets acquired during the year / period		16,506,000	-
		19,346,165	11,653,971
Less: Repayments / adjustments during the year / period		2,673,624	8,813,806
		16,672,541	2,840,165
Less: Current portion shown under current liabilities		3,875,967	2,673,622
		<u>12,796,574</u>	<u>166,543</u>

6.1 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 instalments by January 2010. Overdue rental payments are subject to an additional charge of 3 % per month. Taxes, repairs, replacement and insurance costs are to be borne 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 9.50% to 18.25% per annum have been used as discounting factor.

6.2 The residual value of leased assets amounts to Rs. 857,500 (2005: Rs. 32,200), with purchase option at end of lease period.

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

	Up to one year Rupees	From two to five years Rupees	2006 Rupees	2005 Rupees
Minimum lease payment	5,439,940	14,771,053	20,210,993	2,968,851
Less: Financial charges allocated to future periods	1,563,971	1,974,481	3,538,452	128,686
Present value of minimum lease payments	<u>3,875,969</u>	<u>12,796,572</u>	16,672,541	2,840,165
Less: Current portion shown under current liabilities			3,875,967	2,673,622
			<u>12,796,574</u>	<u>166,543</u>

7. DEFERRED LIABILITIES

Staff retirement benefits - gratuity	7.1	4,338,693	4,368,933
Deferred taxation	7.2	46,192,512	26,129,895
		<u>50,531,205</u>	<u>30,498,828</u>

7.1 Staff retirement benefits - gratuity

The amounts recognized in the balance sheet are as follows:

Present value of defined benefit obligation	4,633,344	4,578,294
Unrecognized actuarial losses	(294,651)	(294,651)
Benefits payables	-	85,290
	<u>4,338,693</u>	<u>4,368,933</u>

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

Current service cost	1,196,759	1,108,110
Interest cost	412,046	406,193
	<u>1,608,805</u>	<u>1,514,303</u>

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

Balance at the beginning of the year / period	4,368,933	6,883,382
Amount recognized during the year / period	1,608,805	1,514,303
	5,977,738	8,397,685
Gratuity paid during the year / period	(1,639,045)	(4,028,752)
Balance at the end of the year / period	<u>4,338,693</u>	<u>4,368,933</u>

The future contribution rates of these plans include allowances for deficit and surplus. As per actuarial estimation carried out as at June 30, 2005, the following significant assumptions have been used for calculation of these plans.

	2006	2005
Discount rate	9%	9%
Expected rate of salary increase in future years	8%	8%
Average expected remaining working life time of employees	5 Years	5 Years

	Note	2006 Rupees	2005 Rupees
7.2 Deferred taxation			
The deferred liability comprises of temporary differences arising due to			
Taxable temporary differences			
Surplus on revaluation of fixed assets		13,912,985	7,978,830
Accelerated tax depreciation and finance lease		60,177,547	18,861,655
		<u>74,090,532</u>	<u>26,840,485</u>
Deductible temporary differences			
Provision for gratuity		(1,342,959)	(710,590)
Taxable loss		(26,555,061)	-
		<u>46,192,512</u>	<u>26,129,895</u>
8. TRADE AND OTHER PAYABLES			
Creditors		24,252,738	28,158,115
Accrued liabilities		26,016,470	18,072,056
Advance from customers		5,165,205	1,301,477
Due to associated undertakings		323,068	36,068
Due to employees		318,873	539,381
Workers' profit participation fund	8.1	1,519,436	4,447,267
Withholding taxes		692,682	266,115
Unclaimed dividend		2,914,548	2,718,668
		<u>61,203,020</u>	<u>55,539,147</u>
8.1 Workers' Profit Participation Fund			
Opening balance		4,447,267	3,017,093
Interest on funds utilized in company's business		269,577	93,613
Allocation for the year / period	30	1,519,436	4,447,267
Payment to the fund		(4,716,844)	(3,110,706)
		<u>1,519,436</u>	<u>4,447,267</u>
9. MARK UP ACCRUED ON LOANS			
Mark-up accrued on secured			
Long term financing		5,558,033	3,138,661
Finance lease		81,980	4,446
Short term borrowings		7,435,184	2,931,446
		<u>13,075,197</u>	<u>6,074,553</u>
10. SHORT TERM BORROWINGS- Secured			
Banking companies			
Cash finances		66,764,973	296,332,864
Running finances		81,765,814	27,467,153
Short term demand finances		200,000,000	150,000,000
Finances on imported merchandise		77,423,489	-
		<u>425,954,276</u>	<u>473,800,017</u>
10.1			
Short term facilities available from commercial banks under mark up arrangements amounts to Rs. 1,065 million (2005: Rs. 1,110 million). The rate of mark up ranges from 8.67% to 10.29% 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.			
11. CURRENT PORTION OF NON-CURRENT LIABILITIES			
Long term finances	5	100,699,000	58,803,000
Liability against assets subject to finance lease	6	3,875,967	2,673,622
		<u>104,574,967</u>	<u>61,476,622</u>
12. CONTINGENCIES AND COMMITMENTS			
Contingencies			
Bank / financial institution/ insurance guarantees		36,881,010	27,700,000
Commitments			
Under letters of credit			
- Raw material		-	11,637,203
- Machinery		49,014,172	35,498,963
- Stores and spares		1,520,520	928,407

15. LONG TERM DEPOSITS	Note	2006 Rupees	2005 Rupees
Lease key deposit			
Opening balance		467,400	4,492,200
Add: Lease key money on lease obtained during the year / period		825,300	-
		<u>1,292,700</u>	<u>4,492,200</u>
Adjusted against lease liabilities during the year / period		-	3,600,000
Transfer to short term deposits	20	-	860,000
		<u>-</u>	<u>4,460,000</u>
		<u>1,292,700</u>	<u>32,200</u>
Security deposit		-	435,200
		<u>1,292,700</u>	<u>467,400</u>

16. STORES AND SPARES

Stores		11,365,098	8,626,300
Spares		7,945,352	2,206,709
		<u>19,310,450</u>	<u>10,833,009</u>

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

17. STOCK-IN-TRADE

Raw material			
- Spinning unit		302,475,748	386,690,312
- In transit		26,334,252	-
		<u>328,810,000</u>	<u>386,690,312</u>
Work in process		9,056,842	7,480,879
Finished goods			
- Spinning unit		29,474,593	17,700,403
- Ginning factory		12,848,422	69,655,203
		<u>42,323,015</u>	<u>87,355,606</u>
Waste		1,150,936	1,319,220
		<u>381,340,793</u>	<u>482,846,017</u>

18. TRADE DEBTS

Foreign - secured against foreign bills			
Considered good		13,450,407	1,922,827
Local - unsecured			
Considered good	18.1	67,841,683	81,569,782
Considered doubtful		500,000	500,000
		<u>68,341,683</u>	<u>82,069,782</u>
		<u>81,792,090</u>	<u>83,992,609</u>
Provision for doubtful debts		(500,000)	(500,000)
		<u>81,292,090</u>	<u>83,492,609</u>

18.1 It includes Rs. 9,815,253 due from Indus Dyeing & Manufacturing Co. Limited (2005: 1,509,298 due from Yousuf Textile Mills Limited) associated undertakings. Maximum aggregate balance at the end of any month during the year was Rs.17,613,776 (2005: 11,533,036).

19. LOANS AND ADVANCES

Considered good			
Due from employees		2,375,054	1,761,786
Advances			
Income tax		29,575,161	19,269,936
Suppliers / services		8,154,924	8,416,186
Contractor		6,228	70,500
Letter of credit, fee margin and expenses		40,323,494	5,287,821
		<u>80,434,861</u>	<u>34,806,229</u>

	Note	2006 Rupees	2005 Rupees
20. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Security deposits		136,200	341,004
Lease key money deposits	15	-	860,000
Bank guarantee margin		4,869,051	3,577,000
Prepayments		-	901,484
		<u>5,005,251</u>	<u>5,679,488</u>
21. OTHER RECEIVABLES			
Considered good			
Income tax refundable		-	5,658,580
Sales tax refundable		12,934,186	9,403,547
Others		1,251,076	144,225
		<u>14,185,262</u>	<u>15,206,352</u>
22. CASH AND BANK BALANCES			
Cash in hand		524,641	68,392
Cash at banks			
- Current accounts		36,565,859	45,127,247
- Escrow accounts		20,582	20,582
- Deposit accounts		2,390	6,696
		<u>36,588,831</u>	<u>45,154,525</u>
		<u>37,113,472</u>	<u>45,222,917</u>
		For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
23. SALES			
Yarn			
Export		193,589,982	542,279,451
Local		1,408,251,033	439,258,453
		<u>1,601,841,015</u>	<u>981,537,904</u>
Waste			
Local		25,065,990	18,911,463
		<u>1,626,907,005</u>	<u>1,000,449,367</u>
Less:			
Commission		14,617,030	15,646,080
		<u>1,612,289,975</u>	<u>984,803,287</u>
24. COST OF SALES			
Cost of goods manufactured	24.1	1,446,710,532	767,273,563
Finished goods			
Opening stock		19,019,623	51,530,342
Purchase of finished goods		38,391,681	22,650,938
Closing stock		(30,625,529)	(19,019,623)
		<u>26,785,775</u>	<u>55,161,657</u>
		<u>1,473,496,307</u>	<u>822,435,220</u>
24.1 Cost of goods manufactured			
Raw material consumed	24.1.1	1,181,023,952	604,048,311
Stores and spares consumed		21,698,497	15,684,767
Packing material consumed		20,358,821	12,797,496
Salaries, wages, benefits and doubling charges	24.1.2	65,771,079	41,410,499
Power and fuel		85,768,323	45,982,926
Insurance		1,912,626	1,730,821
Repairs and maintenance		5,758,194	3,457,125
Depreciation	13.3	65,807,260	40,451,611
Others		187,743	93,019
		<u>1,448,286,495</u>	<u>765,656,575</u>
Work in process			
Opening stock		7,480,879	9,097,867
Closing stock		(9,056,842)	(7,480,879)
		<u>(1,575,963)</u>	<u>1,616,988</u>
		<u>1,446,710,532</u>	<u>767,273,563</u>

		For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
24.1.1 Raw material consumed	Note		
Opening stock		386,690,312	101,288,783
Purchases including purchase expenses Transferred from ginning unit	26	816,317,138 306,826,502 <u>1,123,143,640</u>	706,171,827 183,278,013 <u>889,449,840</u>
Closing stock		1,509,833,952 <u>(328,810,000)</u> <u>1,181,023,952</u>	990,738,623 <u>(386,690,312)</u> <u>604,048,311</u>
24.1.2 It includes Rs. 1,140,042 (2005 : Rs.1,013,213) in respect of staff retirement benefits.			
25. OTHER OPERATING INCOME			
Gain on sale of operating assets	13.6	584,553	28,283
Interest on deposits		101,935	15,783
Lease rental income		637,500	-
		<u>1,323,988</u>	<u>44,066</u>
26. PROFIT ON OTHER OPERATIONS			
Transferred to spinning operations		306,826,502	183,278,013
Sales-Net		20,967,576	59,638,286
Cost of Sales	26.1	327,794,078 <u>(324,580,556)</u>	242,916,299 <u>(238,619,481)</u>
Gross Profit		3,213,522	4,296,818
Administrative expenses		704,518	598,757
Finance cost		1,905,929	2,414,339
		<u>2,610,447</u> <u>603,075</u>	<u>3,013,096</u> <u>1,283,722</u>
26.1 Cost of goods sold (ginning)			
Opening Stock		69,655,203	11,706,480
Cost of ginning and oil	26.2.1	267,773,775	296,568,204
Closing stock		<u>(12,848,422)</u>	<u>(69,655,203)</u>
		<u>324,580,556</u>	<u>238,619,481</u>
26.2.1 Cost of ginning and oil			
Raw material Consumed	26.2.1.1	250,316,867	276,508,404
Crushing charges		550,068	643,090
Fuel and power		7,255,436	9,508,481
Packing material consumed		1,698,436	3,440,300
Wages		4,098,460	3,778,719
Repair and maintenance		2,042,805	1,487,020
Lease rent		300,000	225,000
Insurance		793,905	823,015
Others		717,798	154,175
		<u>267,773,775</u>	<u>296,568,204</u>
26.2.1.1 Raw material consumed			
Opening Stock		-	5,824,791
Purchase of phutti and cotton seed		316,396,759	341,974,812
Purchase expenses		1,697,658	1,888,366
		<u>318,094,417</u>	<u>349,687,969</u>
Recovery from oil sales		<u>(67,777,550)</u>	<u>(73,179,565)</u>
Closing stock		-	-
		<u>(67,777,550)</u>	<u>(73,179,565)</u>
		<u>250,316,867</u>	<u>276,508,404</u>
The company has acquired a factory on operating lease for cotton ginning and crushing activity.			
27. PROFIT ON TRADING OF COTTON LINT			
Cotton lint sold during the year / period		292,577,456	7,209,088
Less: Purchase including purchase expenses of cotton lint sold during the year / period		<u>(288,691,451)</u>	<u>(7,184,940)</u>
		<u>3,886,005</u>	<u>24,148</u>

		For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
28. DISTRIBUTION COST	Note		
Yarn export development surcharge		446,863	958,293
Ocean freight		2,868,332	7,636,612
Forwarding		1,577,560	3,318,689
Local freight		2,715,090	3,169,120
Others		1,966,473	3,310,302
		9,574,318	18,393,016
29. ADMINISTRATIVE EXPENSES			
Director's remuneration		600,000	450,000
Staff salaries and benefits	29.1	11,427,123	7,885,629
Postage, telephone and telex		1,380,251	965,340
Vehicle running		2,789,811	1,284,116
Travelling and conveyance		2,050,659	1,496,491
Printing and stationery		464,945	590,444
Entertainment		441,188	272,609
Fees, subscription and periodicals		531,531	303,761
Auditors' remuneration	29.2	180,000	155,000
Legal and professional charges		29,000	311,250
Rent, rates and taxes		541,266	298,507
Repairs and maintenance		269,415	363,597
Insurance		1,058,910	611,187
Donations	29.3	918,671	524,500
Depreciation	13.3	4,674,252	2,577,673
Others		907,781	500,618
		28,264,803	18,590,722
29.1	It includes Rs. 468,763 (2005 : Rs.501,092) in respect of staff retirement benefits.		
29.2 Auditors' remuneration			
<i>M. Yousuf Adil Saleem & Co.</i>			
Statutory audit fee		150,000	125,000
Half yearly review		30,000	30,000
		180,000	155,000
29.3	Non 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	13.6	133,095	4,062,146
Worker's profit participation fund	8.1	1,519,436	4,447,267
		1,652,531	8,509,413
31. FINANCE COST			
Mark-up on secured			
Long term financing		34,215,745	12,462,651
Lease finance		1,008,791	382,361
Short term borrowings		39,593,663	19,670,948
Bank charges and commission		1,427,609	1,212,824
Interest on workers` profit participation fund	8.1	269,577	93,613
		76,515,385	33,822,397
32. PROVISION FOR TAXATION			
For the year / period			
- Current		8,134,535	7,042,217
- Deferred		14,128,463	7,137,938
		22,262,998	14,180,155

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

	For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
32.1 Deferred		
The deferred tax liability comprises of temporary differences arising due to:		
Liability for the year		
Accelerated tax depreciation allowance and finance lease	60,177,547	18,861,655
Provision for gratuity	(1,342,959)	(710,590)
Unused tax losses	(26,555,061)	-
	32,279,529	18,151,066
Less : opening deferred liability	(18,151,066)	(11,013,128)
	<u>14,128,463</u>	<u>7,137,938</u>

33. EARNINGS PER SHARE

Net profit after taxation for the year / period attributable to ordinary shareholders.	6,336,701	70,224,300
	Number of shares	
Number of ordinary shares outstanding	6,900,000	6,900,000
	Rupees	
Earnings per share	0.92	10.18

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

34. DIVIDEND

In respect of current year, the directors propose a cash dividend of Rs. NIL (2005: Rs. 6,900,000) at the rate of Re. (2005: Re. 1) per ordinary share of Rs. 10 each. Proposed dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as liability in these financial statements. This will be accounted for subsequently in the year of payment.

35. REMUNERATION TO CHIEF EXECUTIVE OFFICER

35.1 Chief Executive Officer

Remuneration	414,000	300,000
House rent allowance	186,000	150,000
	<u>600,000</u>	<u>450,000</u>
Number of persons	<u>1</u>	<u>1</u>

Chief executive officer and a director are entitled to free use of company maintained cars. The monetary values are approximately Rs. 373,026 (2005: Rs.233,446).

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 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 clients' 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 risk.

36.2 Liquidity risk

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

36.3 Foreign exchange risk

Foreign exchange risk arises when receivables and payables exist due to transactions with foreign undertakings. The management takes out forward exchange contracts, where appropriate, to mitigate the risk. No forward foreign exchange contracts were outstanding at the year-end.

36.4 Fair values of financial instruments

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

36.4.1 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.

36.4.2 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.

37. AGGREGATE TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS	For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
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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 35. Other significant transactions with related parties are as follows:

Sale of goods and services	799,739,495	106,520,930
Purchase of goods and services	110,115,937	29,245,770
Purchase of property, plant and equipment	6,981,188	-

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

38. PLANT CAPACITY AND PRODUCTION

Number of spindles installed	33,072	33,072
Number of spindles worked	32,934	27,573
Number of shifts	3	3
Installed capacity after conversion into 20/s count Kgs.	11,293,286	7,678,872
Actual production of yarn after conversion into 20/s count Kgs.	10,910,840	6,724,279

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 7th October 2006 by the Board of Directors of the company.

40. RECLASSIFICATIONS

40.1 Following reclassifications / rearrangements have been made in the financial statements to incorporate changes in Fourth Schedule of Companies Ordinance 1984.

Previous classification

Property, plant and equipment
Capital work in progress

Current classification

Property, plant and equipment

41. GENERAL

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

CHIEF EXECUTIVE OFFICER

DIRECTOR