

**SUNRAYS TEXTILE MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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 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 Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984 and International Financial Reporting Standards (IFRS). 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 precedence.

Effective from accounting period beginning on or after January 1, 2007

IFRS 2 - Share based payment
IFRS 3 - Business combinations
IFRS 5 - Non-current assets held for sale and discontinued operations
IFRS 6 - Exploration for and evaluation of mineral resources
IFRIC 12 - Services concession arrangements

Effective from accounting period beginning on or after November 01, 2006

IFRIC 10 - Interim financial reporting and impairment

Effective from accounting period beginning on or after March 01, 2007

IFRIC 11 - Group and treasury share transactions

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

IFRIC 13 - Customer loyalty programmes

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.

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. 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 Pakistan.

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 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 2.21.

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

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

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 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 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.

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 was Rs. 2,500,000 (2006: Rs. 2,500,000).

	Note	2007 Rupees	2006 Rupees
5. LONG TERM DEPOSITS			
Security deposit with WAPDA		435,200	435,200
Lease key deposit	5.1	825,300	857,500
		<u>1,260,500</u>	<u>1,292,700</u>
5.1 Lease key deposit			
Opening balance		857,500	32,200
Add: Lease key money on lease obtained during the year		-	825,300
Less: Transfer to short term deposits	10	32,200	-
		<u>825,300</u>	<u>857,500</u>
6. STORES AND SPARES			
Stores		16,208,037	11,365,098
Spares		5,700,079	7,945,352
		<u>21,908,116</u>	<u>19,310,450</u>

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

7. STOCK-IN-TRADE

Raw material			
- Spinning unit		302,548,833	302,475,748
- In transit		54,053,954	26,334,252
		356,602,787	328,810,000
Work in process		11,248,435	9,056,842
Finished goods			
- Spinning unit		30,691,955	29,474,593
- Ginning factory		11,350	12,848,422
		30,703,305	42,323,015
Waste		1,950,944	1,150,936
		<u>400,505,471</u>	<u>381,340,793</u>

8. TRADE DEBTS

Foreign - secured against foreign bills			
Considered good		39,051,725	13,742,804
Local - unsecured			
Considered good	8.1	66,979,309	67,841,683
Considered doubtful		814,018	500,000
		67,793,327	68,341,683
		106,845,052	82,084,487
Provision for doubtful debts		(814,018)	(500,000)
		<u>106,031,034</u>	<u>81,584,487</u>

8.1 It includes Rs. 13,430,138 due from Indus Home Co. Limited (2006: Rs. 9,815,253 due from Indus Dying & Manufacturing Co. Limited) associated undertakings. Maximum aggregate balance at the end of any month during the year was Rs.11,033,129 (2006: 17,613,776)

9. LOANS AND ADVANCES

Considered good

Due from employees		2,069,978	2,375,054
Advances			
Income tax		6,948,526	23,916,581
Suppliers/ services		5,023,029	8,154,924
Contractor		55,681	6,228
Letters of credit, fee margin and expenses		28,094,349	40,323,494
		<u>42,191,563</u>	<u>74,776,281</u>

10. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS	Note	2007 Rupees	2006 Rupees
Security deposits		111,200	136,200
Lease key money deposits	5	32,200	-
Bank guarantee margin		5,369,051	4,869,051
Prepayments		441,784	-
		<u>5,954,235</u>	<u>5,005,251</u>

11. OTHER RECEIVABLES

Considered good

Income tax refundable	11,856,166	5,658,580
Sales tax refundable	10,237,402	12,934,186
Insurance claim receivables	2,813,000	-
Others	245,343	958,679
	<u>25,151,911</u>	<u>19,551,445</u>

12. CASH AND BANK BALANCES

Cash in hand	164,178	524,641
Cash at banks		
-Current accounts	13,411,754	35,107,548
-Escrow accounts	20,582	20,582
-Deposit accounts	2,390	2,390
-Saving accounts	1,520,094	1,596,165
	<u>14,954,820</u>	<u>36,726,685</u>
	<u>15,118,998</u>	<u>37,251,326</u>

12.1 Effective mark-up rate in respect of saving and deposit accounts ranges from 5% to 8% (2006: 0.10% to 4.5%) per annum.

13. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2007	2006		
Number of shares			
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>

13.1 There were no movements during the reporting period.

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

14. SURPLUS ON REVALUATION OF OPERATING ASSETS

Balance at the beginning of the year	47,550,772	51,658,528
Addition during the year	189,769,820	-
	<u>237,320,592</u>	<u>51,658,528</u>
Less: Transferred to unappropriated profit on account of:		
- disposal of operating assets	336,057	-
- incremental depreciation	3,069,961	4,107,756
	<u>3,406,018</u>	<u>4,107,756</u>
	233,914,574	47,550,772
Related deferred tax liability	(48,502,669)	(13,912,985)
	<u>185,411,905</u>	<u>33,637,787</u>

14.1 Surplus on revaluation of fixed assets determined as on:

	Rupees
September 30, 1996	142,334,216
June 30, 2007	189,769,820

16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2007 Rupees	2006 Rupees
Balance at the beginning of the year		16,672,541	2,840,165
Assets acquired during the year		-	16,506,000
		<u>16,672,541</u>	<u>19,346,165</u>
Less: Repayments during the year		3,831,715	2,673,624
		<u>12,840,826</u>	<u>16,672,541</u>
Less: Current portion shown under current liabilities		4,384,154	3,875,967
		<u>8,456,672</u>	<u>12,796,574</u>

16.1 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 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 12.84% per annum have been used as discounting factor.

16.2 The residual value of leased assets amounts to Rs. 857,500 (2006: Rs. 857,500), with purchase option at end of lease period.

16.3 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	2007 Rupees	2006 Rupees
Minimum lease payment	5,621,326	9,385,745	15,007,071	20,210,993
Less: Financial charges allocated to future periods	1,237,172	929,073	2,166,245	3,538,452
Present value of minimum lease payments	<u>4,384,154</u>	<u>8,456,672</u>	12,840,826	16,672,541
Less: Current portion shown under current liabilities			4,384,154	3,875,967
			<u>8,456,672</u>	<u>12,796,574</u>

17. DEFERRED LIABILITIES

Staff retirement benefits - gratuity	17.1	2,654,591	4,338,693
Deferred taxation	17.2	79,920,034	46,192,512
		<u>82,574,625</u>	<u>50,531,205</u>

17.1 Staff retirement benefits - gratuity

The amounts recognized in the balance sheet are as follows:

Present value of defined benefit obligation	2,949,242	4,633,344
Unrecognized actuarial losses	(294,651)	(294,651)
	<u>2,654,591</u>	<u>4,338,693</u>

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

Current service cost	1,304,467	1,196,759
Interest cost	417,001	412,046
	<u>1,721,468</u>	<u>1,608,805</u>

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

Balance at the beginning of the year	4,338,693	4,368,933
Amount recognized during the year	1,721,468	1,608,805
	6,060,161	5,977,738
Gratuity paid during the year	(3,405,570)	(1,639,045)
Balance at the end of the year	<u>2,654,591</u>	<u>4,338,693</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.

	2007	2006
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	2007 Rupees	2006 Rupees
17.2 Deferred taxation			
The deferred liability comprises of temporary differences arising due to			
Taxable temporary differences			
Surplus on revaluation of fixed assets		48,502,669	13,912,985
Accelerated tax depreciation and finance lease		54,781,944	60,177,547
		<u>103,284,613</u>	<u>74,090,532</u>
Deductible temporary differences			
Provision for gratuity		(736,384)	(1,342,959)
Taxable loss		(22,628,195)	(26,555,061)
		<u>79,920,034</u>	<u>46,192,512</u>
18. TRADE AND OTHER PAYABLES			
Creditors		26,779,825	24,252,738
Accrued liabilities		25,443,307	26,016,470
Advance from customers		3,031,888	5,165,205
Due to associated undertakings		5,496,391	323,068
Due to employees		528,379	318,873
Workers' profit participation fund	18.1	871,086	1,519,436
Workers' welfare fund		328,166	-
Tax deducted at source		507,394	692,682
Unclaimed dividend		2,854,220	2,914,548
		<u>65,840,656</u>	<u>61,203,020</u>
18.1 Workers' Profit Participation Fund			
Opening balance		1,519,436	4,447,267
Interest on funds utilized in company's business	31	142,327	269,577
		1,661,763	4,716,844
Payment to the fund		(1,661,763)	(4,716,844)
		-	-
Allocation for the year	30	871,086	1,519,436
		<u>871,086</u>	<u>1,519,436</u>
19. MARK UP ACCRUED ON LOANS			
Mark-up accrued on secured			
Long term financing		8,190,886	5,558,033
Liabilities against assets subject to finance lease		72,460	81,980
Short term borrowings		7,647,909	7,435,184
		<u>15,911,255</u>	<u>13,075,197</u>
20. SHORT TERM BORROWINGS			
Banking companies			
Secured			
Cash finances		141,941,560	66,764,973
Running finances		76,151,021	81,765,814
Short term demand finances		50,000,000	200,000,000
Finances on imported merchandise		159,967,694	77,423,489
Unsecured			
Bank overdraft		-	137,854
		<u>428,060,275</u>	<u>426,092,130</u>
20.1 Short term facilities available from commercial banks under mark up arrangements amounts to Rs. 1,430 million (2006: Rs. 1,065 million). The rate of mark up ranges from 9.12% to 11.62% (2006: 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.			
21. CURRENT PORTION OF NON CURRENT LIABILITIES			
Long term financing	15	91,775,604	100,699,000
Liabilities against assets subject to finance lease	16	4,384,154	3,875,967
		<u>96,159,758</u>	<u>104,574,967</u>

	2007 Rupees	2006 Rupees
22. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Bank / financial institution/ insurance guarantees	38,881,010	36,881,010
Foreign bills purchased	2,294,000	19,635,241
	<u>41,175,010</u>	<u>56,516,251</u>
Commitments		
Under letters of credit		
- Raw material	117,237,101	-
- Plant and machinery	14,091,826	49,014,172
- Stores and spares	576,725	1,520,520
	<u>131,905,652</u>	<u>50,534,692</u>
23. SALES		
Yarn		
Export	365,497,050	193,589,982
Local	1,311,669,454	1,408,251,033
Doubling	721,000	350,000
	<u>1,677,887,504</u>	<u>1,602,191,015</u>
Waste		
Local	26,480,330	25,065,990
	<u>1,704,367,834</u>	<u>1,627,257,005</u>
Less:		
Commission	15,443,733	14,617,030
	<u>1,688,924,101</u>	<u>1,612,639,975</u>
24. COST OF SALES		
Cost of goods manufactured	24.1 1,422,631,090	1,447,060,532
Finished goods		
Opening stock	30,625,529	19,019,623
Purchase of finished goods	136,116,483	38,391,681
Closing stock	(32,642,899)	(30,625,529)
	<u>134,099,113</u>	<u>26,785,775</u>
	<u>1,556,730,203</u>	<u>1,473,846,307</u>
24.1 Cost of goods manufactured		
Raw material consumed	24.1.1 1,116,287,761	1,181,023,952
Stores and spares consumed	25,407,363	21,698,497
Packing material consumed	23,066,249	20,358,821
Salaries, wages and benefits	24.1.2 75,243,359	66,121,079
Power and fuel	103,058,230	85,768,323
Insurance	1,970,163	1,912,626
Repairs and maintenance	7,834,745	5,758,194
Depreciation	3.2 71,716,974	65,807,260
Others	237,839	187,743
	<u>1,424,822,683</u>	<u>1,448,636,495</u>
Work in process		
Opening stock	9,056,842	7,480,879
Closing stock	(11,248,435)	(9,056,842)
	<u>(2,191,593)</u>	<u>(1,575,963)</u>
	<u>1,422,631,090</u>	<u>1,447,060,532</u>

		2007 Rupees	2006 Rupees
24.1.1 Raw material consumed	Note		
Opening stock		302,475,748	386,690,312
Purchases including purchase expenses		1,054,834,849	789,982,886
Transferred from ginning unit	26	61,525,997	306,826,502
		1,116,360,846	1,096,809,388
		1,418,836,594	1,483,499,700
Closing stock		(302,548,833)	(302,475,748)
		<u>1,116,287,761</u>	<u>1,181,023,952</u>
24.1.2 It includes Rs. 1,372,968 (2006 : Rs. 1,140,042) in respect of staff retirement benefits.			
25. OTHER OPERATING INCOME			
Gain on sale of operating assets	3.6	20,777,533	584,553
Interest on deposits		172,105	101,935
Lease rental income		-	637,500
		<u>20,949,638</u>	<u>1,323,988</u>
26. PROFIT ON OTHER OPERATIONS			
Transferred to spinning operations		61,525,997	306,826,502
Sales-net		-	20,967,576
		61,525,997	327,794,078
Cost of Sales	26.1	(60,700,895)	(324,580,556)
Gross Profit		825,102	3,213,522
Administrative expenses		181,952	704,518
Finance cost		643,150	1,905,929
		825,102	2,610,447
		-	603,075
26.1 Cost of goods sold (ginning)			
Opening Stock		12,848,422	69,655,203
Cost of ginning and oil	26.1.1	47,863,823	267,773,775
Closing stock		(11,350)	(12,848,422)
		<u>60,700,895</u>	<u>324,580,556</u>
26.1.1 Cost of ginning and oil			
Raw material consumed	26.1.1.1	41,014,312	250,316,867
Crushing charges		99,156	550,068
Fuel and power		3,303,802	7,255,436
Packing material consumed		310,306	1,698,436
Wages		1,584,966	4,098,460
Repair and maintenance		648,246	2,042,805
Lease rent		100,000	300,000
Insurance		310,248	793,905
Others		492,787	717,798
		<u>47,863,823</u>	<u>267,773,775</u>
26.1.1.1 Raw material consumed			
Purchase of phutti and cotton seed		73,343,121	316,396,759
Purchase expenses		368,172	1,697,658
Recovery from oil sales		(32,696,981)	(67,777,550)
		<u>41,014,312</u>	<u>250,316,867</u>
26.2 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		46,926,464	292,577,456
Less: Purchase including purchase expenses of cotton lint sold during the year		46,741,711	288,691,451
		<u>184,753</u>	<u>3,886,005</u>

	Note	2007 Rupees	2006 Rupees
28. DISTRIBUTION COST			
Yarn export development surcharge		836,070	446,863
Ocean freight		6,105,453	2,868,332
Forwarding		2,361,151	1,577,560
Local freight		6,539,525	2,715,090
Others		2,284,362	1,966,473
		<u>18,126,561</u>	<u>9,574,318</u>
29. ADMINISTRATIVE EXPENSES			
Director's remuneration		600,000	600,000
Staff salaries and benefits	29.1	12,648,512	11,427,123
Postage, telephone and telex		1,636,913	1,380,251
Vehicle running		2,780,849	2,789,811
Travelling and conveyance		1,639,531	2,050,659
Printing and stationery		444,819	464,945
Entertainment		320,850	441,188
Fees, subscription and periodicals		475,132	531,531
Auditors' remuneration	29.2	248,000	180,000
Legal and professional charges		115,500	29,000
Rent, rates and taxes		479,325	541,266
Repairs and maintenance		206,954	269,415
Insurance		1,055,002	1,058,910
Donations	29.3	726,061	918,671
Depreciation	3.2	5,938,264	4,674,252
Others		951,337	907,781
		<u>30,267,049</u>	<u>28,264,803</u>
29.1 It includes Rs. 348,500 (2006: Rs. 468,763) in respect of staff retirement benefits.			
29.2 Auditors' remuneration			
M. Yousuf Adil Saleem & Co.			
Statutory audit fee		175,000	150,000
Code of corporate governance review		40,000	-
Half yearly review		33,000	30,000
		<u>248,000</u>	<u>180,000</u>
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	3.6	436,445	133,095
Provision for doubtful debts		314,018	-
Workers' welfare fund		328,166	-
Workers' profit participation fund	18.1	871,086	1,519,436
		<u>1,949,715</u>	<u>1,652,531</u>
31. FINANCE COST			
Mark-up on secured			
Long term financing		35,880,509	34,215,745
Liabilities against assets subject to finance lease		1,680,963	1,008,791
Short term borrowings		46,881,510	39,593,663
Bank charges and commission		2,319,525	1,427,609
Interest on worker's profit participation fund	18.1	142,327	269,577
		<u>86,904,834</u>	<u>76,515,385</u>
32. PROVISION FOR TAXATION			
For the year			
Current		8,521,839	8,134,535
Prior		227,599	-
		<u>8,749,438</u>	<u>8,134,535</u>
Deferred taxation		(862,164)	14,128,463
		<u>7,887,274</u>	<u>22,262,998</u>
32.1 Relationship between tax expense and accounting profit			
Accounting profit before tax		16,080,130	28,599,699
Tax rate %		35%	35%
Tax on accounting profit		5,628,046	10,009,895
Adjustments of prior years in respect of:			
- Current tax		227,599	-
Deferred tax		(862,164)	14,128,463
Provision relating to section 113 of the Income Tax Ordinance 2001		2,893,793	(1,875,360)
		<u>7,887,274</u>	<u>22,262,998</u>

	2007 Rupees	2006 Rupees
32.2 Deferred taxation		
The deferred tax expense comprises of temporary differences arising due to:		
Accelerated tax depreciation allowance and finance lease	54,781,944	60,177,549
Provision for gratuity	(736,384)	(1,342,959)
Unused tax losses	<u>(22,628,195)</u>	<u>(26,555,061)</u>
	31,417,365	32,279,529
Opening deferred liability	<u>(32,279,529)</u>	<u>(18,151,066)</u>
	<u>(862,164)</u>	<u>14,128,463</u>
33. EARNINGS PER SHARE		
Net profit for the year	<u>8,192,856</u>	<u>6,336,701</u>
	Number of shares	
Number of ordinary shares outstanding	<u>6,900,000</u>	<u>6,900,000</u>
	Rupees	
Earnings per share	<u>1.19</u>	<u>0.92</u>

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

34. REMUNERATION TO CHIEF EXECUTIVE OFFICER

Remuneration	414,000	414,000
House rent allowance	<u>186,000</u>	<u>186,000</u>
	<u>600,000</u>	<u>600,000</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. 528,798 (2006: Rs. 373,026).

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 risk.

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 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.

35.4 Fair values of financial instruments

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

35.4.1 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.

35.4.2 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.

36. 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:

	2007	2006
	Rupees	Rupees
Sale of goods and services	339,674,902	799,739,495
Sale of operating assets	41,666,000	-
Purchase of goods and services	49,108,436	110,115,937
Purchase of operating assets	12,405,590	6,981,188

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

37. PLANT CAPACITY AND PRODUCTION

	2007	2006
Number of spindles installed	33,072	33,072
Number of spindles worked	32,780	32,934
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.	10,582,306	10,910,840

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.

38. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 06 2007 by the Board of Directors of the company.

39. RECLASSIFICATIONS

39.1 Following reclassifications/ rearrangements have been made in the financial statements for better presentation.

Previous classification/ arrangement	Current classification/ arrangement	Rupees
Cost of sales	Sales	350,000
Other receivables	Trade debts	292,397
Cash and bank balance	Short term borrowings	137,854
Cash and bank balance- current accounts	Cash and bank balance- saving accounts	1,596,165
Loans and advances	Other receivables	5,658,580
Lease key deposit	Security deposit with WAPDA	435,200

40. GENERAL

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER