

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED JUNE 30, 2006**

### **1 STATUS AND ACTIVITIES**

**1.1** Bhanero Textile Mills Limited "the Company" was incorporated in Pakistan on March 30, 1980 as a public limited company under the Companies Act 1913, which was superseded by Companies Ordinance, 1984. The Company is currently listed on Karachi Stock Exchange (Guarantee) Limited, Islamabad Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The company is principally engaged in manufacturing and sale of yarn and woven fabrics. The Company is also engaged in the activity of power generation. The registered office is located at 10/2 Bilmoria Street , I.I Chundrigarh Road, Karachi.

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

### **1.3 Statement of compliance**

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

### **1.4 Accounting convention**

These financial statements have been prepared under the historical cost convention except for as stated in Note 2 to the financial statements.

### **1.5 Corresponding figures**

Through its SRO no. 684 (1)/2004 dated August 10, 2004, the Central Board of Revenue directed "Cotton Textile Companies" to change their accounting year from October - September to July - June. A clarification was also issued in this respect, which stipulated that first annual accounts of these companies after the change shall be prepared for nine months period ending on June 30, 2005. The Securities and Exchange Commission of Pakistan also adopted this change through its Circular no. 29 of 2004, dated November 05, 2004. Preceding financial statements were prepared according to the said directive. Therefore, the corresponding figures for profit and loss account, cash flow statement, statement of changes in equity and the related notes are for nine months period, hence are not entirely comparable with those of the current year.

**1.6** During the year, certain changes to International Accounting Standards (IASs) and interpretations that are relevant to operations of the Company became effective. The changes of these IASs and Interpretations have resulted in additional disclosures and improvements in presentation of financial statements with no effect on results of operations.

### **1.7 Significant estimates**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IAS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in the ensuing paragraphs.

#### **Employee retirement benefits**

The Company operates an approved unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Contributions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation require

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are reviewed by the management each year.

**Property, plant and equipment**

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

**Taxation**

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

**Trade debts and other receivables**

The Company considers recoverability of its trade debts and other receivables on regular basis and determines whether any provision is required for doubtful debts and receivables. Any change in the estimates in future years might affect the carrying amounts of respective items of trade debts and other receivables with a corresponding affect on the provision for doubtful debts and receivables.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Property, plant and equipment**

Property, plant and equipment except land and capital work in progress are stated at cost less accumulated depreciation and impairment in value, if any. Freehold land, capital work in progress and stores held for capital expenditure are stated at cost. Cost also includes borrowing costs wherever applicable.

Assets' residual values, if significant and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

When parts of an item of property, plant and equipment have different useful lives, they are recognized as separate items of property, plant and equipment.

Subsequent costs are recognized as a part of asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income during the period in which they are incurred.

Depreciation is charged to profit and loss account applying the reducing balance method over its estimated useful life at the rates specified in note 3 to the financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is available for use while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Exchange differences in respect of foreign currency loans obtained for acquisition of property, plant and machinery are accounted for as an income/expense in the profit and loss account, as and when incurred.

Gains or losses on disposal of property, plant and equipment, if any, are recognized in the income of the relevant year, as and when incurred.

All expenditures connected with specific assets incurred during installation and construction period are carried under capital work in progress. These are transferred to specific assets as and when these assets are available for use.

**2.2 Assets held under finance lease**

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

**2.3 Investments available for sale designated as financial assets at fair value through profit or loss**

These are investments designated at fair value through profit or loss at inception. These are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

For investment in listed securities, closing quotations of stock exchange on last working day of the accounting year is used for determining fair value.

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

**2.4 Stores, spare parts and loose tools**

These are valued at cost, determined on weighted average cost less allowances for obsolete and slow moving items. Items in transit are valued at cost comprising invoice values plus other charges incurred thereon up to the balance sheet date. Items considered obsolete are carried at nil value.

**2.5 Stock-in-trade**

These are valued at the lower of cost and net realizable value. Cost is computed applying the following basis:

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

Rawmaterial in transit are stated at invoice price plus other charges paid thereon up to the balance sheet date.

Average manufacturing cost in relation to work in process and finished goods, consists of direct material and labour and a proportion of manufacturing overheads based on normal capacity.

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 makethesale.

**2.6 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 recognized in profit and loss account for the relevant year. 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 assets is increased to the revised recoverable amount but limited to the extent of initial cost of the assets. Reversal of impairment loss is recognized as income.

**2.7 Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

Financial instruments are initially recorded at fair value on the date a derivative contract is entered into and are re-measured to fair value at subsequent reporting dates.

The gain or loss relating to financial instruments is recognised immediately in the profit and loss account.

Particular recognition methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

**2.8 Off setting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**2.9 Trade debts and other receivables**

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful debts and receivables based on review of outstanding amounts at the period end. Balances considered bad and irrecoverable are written off when identified.

**2.10 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks and call deposits.

**2.11 Trade and other payables**

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

**2.12 Accounting for finance lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of minimum lease payments, each determined at the inception of the lease. The corresponding liabilities to the lessor are included in the balance sheet as liabilities against assets subject to finance lease. These liabilities are classified as current and long term depending upon the timing of payment. Lease payments are apportioned between finance cost and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance cost is charged directly to the profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

**2.13 Employee benefits**

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Contributions are made annually to cover the obligation under the schemes on the basis of valuation made internally by the management and are charged to profit and loss for the year.

The amount recognized in the balance sheet represents the present value of defined benefit obligation. Actuarial gains or losses are recognized in the period in which it occurs.

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

**2.14 Compensated absences**

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

**2.15 Provisions**

Provisions are recognized in the balance sheet when the Company has a present, legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

**2.16 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received/receivable for goods and services provided in the normal course of business.

Sale of goods are recognized when goods are delivered and title has been passed.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

Profit on saving accounts is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable.

**2.17 Borrowings**

Loans and borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Financial charges are accounted for on an accrual basis and are included in mark-up accrued on loans to the extent of amount remaining unpaid, if any.

**2.18 Borrowing costs**

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization.

All other borrowing cost are recognized in profit or loss in the period in which they are incurred.

**2.19 Taxation**

***Current***

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption available, if any or minimum taxation at the rate of half percent of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

***Deferred***

Deferred taxation 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 amount 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" issued by the Institute of Chartered Accountants of Pakistan.

Deferred income tax liability is recognized for all taxable temporary differences. Deferred income 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 such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied 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. Deferred tax is charged or credited in the income statements, except in the case of items credited or charged to equity, in that case it is included in equity.

**2.20 Foreign currencies**

Transactions in currencies other than Pakistani Rupees are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities in that case, the rates contracted for are used.

Gains and losses arising on retranslation are included in net profit or loss for the year.

**2.21 Dividend**

Dividend is recognized in the year in which it is declared.

**2.22 Related party transactions**

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on commercial terms and conditions.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**3. PROPERTY, PLANT AND EQUIPMENT**

| DESCRIPTION                             | COST                |                           |                 | DEPRECIATION        |                     |  |                     |                                |                               |
|---|---------------------|---------------------------|-----------------|---------------------|---------------------|--|---------------------|--------------------------------|-------------------------------|
|   | As at July 01, 2005 | Additions/ (Disposals)    | Transfers       | As at June 30, 2006 | As at July 01, 2005 | Charge for the year/period (Accumulated depreciation on disposals) | As at June 30, 2006 | Book value as at June 30, 2006 | Annual rate of depreciation % |
| <b>Owned</b>                            |                     |                           |                 |                     |                     |  |                     |                                |                               |
| <b>R U P E E S</b>                      |                     |                           |                 |                     |                     |  |                     |                                |                               |
| Freehold land                           | 102,219,101         | 20,152,814 (1,573,365)    | -               | 120,798,550         | -                   | -  | -                   | 120,798,550                    | -                             |
| Leasehold land                          | 433,414             | -                         | -               | 433,414             | -                   | -  | -                   | 433,414                        | -                             |
| Building on freehold land               | 71,095,417          | -                         | 193,778,626     | 264,874,043         | 43,223,109          | 15,801,785   | 59,024,894          | 205,849,149                    | 10                            |
| Building on leasehold land              | 74,272,342          | -                         | 14,092,329      | 88,364,671          | 39,932,029          | 4,843,264  | 44,775,293          | 43,589,378                     | 10                            |
| Office premises on freehold land        | 15,562,841          | 10,558,466                | 37,926,242      | 64,047,549          | 7,342,851           | 1,961,076  | 9,303,927           | 54,743,622                     | 5                             |
| Office premises on leasehold land       | 20,435,749          | -                         | 3,992,935       | 24,428,684          | 5,666,824           | 938,093  | 6,604,917           | 17,823,767                     | 5                             |
| Plant and machinery                     | 1,123,340,077       | (4,212,175) (2,802,331)   | 931,286,366     | 2,047,611,937       | 412,126,559         | 121,038,350 (2,545,557)  | 530,619,352         | 1,516,992,585                  | 10                            |
| Plant and machinery (Fast moving items) | 2,859,754           | -                         | -               | 2,859,754           | 707,789             | 943,719  | 1,651,508           | 1,208,246                      | 33                            |
| Electric installations and fittings     | -                   | 10,497,972                | 21,549,872      | 32,047,844          | -                   | 952,442  | 952,442             | 31,095,402                     | 10                            |
| Factory equipment                       | 14,806,024          | 912,300                   | -               | 15,718,324          | 10,931,047          | 478,728  | 11,409,775          | 4,308,549                      | 10                            |
| Office equipment                        | 16,252,598          | 260,655                   | -               | 16,513,253          | 9,053,850           | 740,205  | 9,794,055           | 6,719,198                      | 10                            |
| Computer and accessories                | 774,905             | 254,650                   | -               | 1,029,555           | 415,187             | 202,741  | 617,928             | 411,627                        | 33                            |
| Equipment and other assets              | 450,864             | -                         | -               | 450,864             | 223,550             | 188,991  | 412,541             | 38,323                         | 33                            |
| Furniture and fixtures                  | 4,514,017           | 1,046,234                 | -               | 5,560,251           | 2,644,852           | 244,463  | 2,889,315           | 2,670,936                      | 10                            |
| Vehicles                                | 26,980,881          | 7,419,189 (1,976,710)     | -               | 32,423,360          | 16,836,316          | 2,778,100 (1,473,770)  | 18,140,646          | 14,282,714                     | 20                            |
|   | 1,473,997,984       | 46,890,105 (6,352,406)    | 1,202,626,370   | 2,717,162,053       | 549,103,963         | 151,111,957 (4,019,327)  | 696,196,593         | 2,020,965,460                  |                               |
| <b>Assets held under finance lease</b>  |                     |                           |                 |                     |                     |  |                     |                                |                               |
| Plant and machinery                     | 128,000,000         | -                         | -               | 128,000,000         | 9,600,000           | 11,840,000   | 21,440,000          | 106,560,000                    | 10                            |
| <b>Capital work in progress</b>         |                     |                           |                 |                     |                     |  |                     |                                |                               |
| Building and other civil work           | 131,332,514         | 132,452,711               | (249,790,132)   | 13,995,093          | -                   | -  | -                   | 13,995,093                     |                               |
| Plant and machinery                     | 127,362,944         | 803,345,682               | (920,788,394)   | 9,920,232           | -                   | -  | -                   | 9,920,232                      |                               |
| Unallocated capital expenditure         | 6,155,485           | 25,892,359                | (32,047,844)    | -                   | -                   | -  | -                   | -                              |                               |
| <b>2006</b>                             | 264,850,943         | 961,690,752               | (1,202,626,370) | 23,915,325          | -                   | -  | -                   | 23,915,325                     |                               |
| <b>2005</b>                             | 1,866,848,927       | 1,008,580,857 (6,352,406) | -               | 2,869,077,378       | 558,703,963         | 162,951,957 (4,019,327)  | 717,636,593         | 2,151,440,785                  |                               |
|   | 1,234,026,710       | 644,686,244 (11,864,027)  | -               | 1,866,848,927       | 514,077,625         | 52,097,793 (7,471,455)   | 558,703,963         | 1,308,144,964                  |                               |

3.1 The depreciation charge for the year has been allocated as follows:

|                         | Year ended June 30, 2006 Rupees | Nine months ended June 30, 2005 Rupees |
|-------------------------|---------------------------------|--|
| Cost of sales           | 26                              | 158,986,448                            |
| Administrative expenses | 29                              | 3,965,509                              |
|                         | 162,951,957                     | 52,097,793                             |

**3.2 Disposal of property, plant and equipment**

| Description                | Cost       | Accumulated Depreciation | Written down value | Proceeds from disposal of property, plant and equipment | Gain on disposal of property, plant and equipment | Mode of disposal | Particular of buyer  |
|----------------------------|------------|--------------------------|--------------------|---|---|------------------|--|
| <b>Freehold land</b>       | 1,573,365  | -                        | 1,573,365          | 4,455,000   | 2,881,635   | Negotiation      | Rana Qamru Zaman Jaranwala, Faisalabad road, Faisalabad.                         |
| <b>Plant and machinery</b> |            |                          |                    |   |   |                  |  |
| Carding machines           | 1,601,332  | 1,454,604                | 146,728            | 160,000   | 13,272  | Negotiation      | Haseebullah Khan Plot A-19, S.I.T.E. Karachi.                                    |
| Carding machines           | 1,200,999  | 1,090,953                | 110,046            | 120,000   | 9,954   | Negotiation      | National Absorbent Cotton A/37, S.I.T.E. Karachi.                                |
| <b>Vehicles</b>            |            |                          |                    |   |   |                  |  |
| Suzuki Baleno LXV-4492     | 706,940    | 460,812                  | 246,128            | 375,000   | 128,872   | Negotiation      | Akamal Hameed House # 4438, Gawalmandi Darya abad, Rawalpindi.                   |
| Honda City ABR-315         | 586,155    | 481,668                  | 104,487            | 150,000   | 45,513  | Negotiation      | Muhammad Jamiluddin House # 40-A, Block 13-D-1 Gulshan-E-Iqbal, Karachi.         |
| Honda City ACC-417         | 683,615    | 531,290                  | 152,325            | 200,000   | 47,675  | Negotiation      | Shamsul Arfeen A/451, Al Wajid Town, Mominabad, Sector 4F, Orangi Town, Karachi. |
| <b>2006</b>                | 6,352,406  | 4,019,327                | 2,333,079          | 5,460,000   | 3,126,921   |                  |  |
| <b>2005</b>                | 11,864,027 | 7,471,455                | 4,392,572          | 4,967,500   | 574,928   |                  |  |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

|              |  | <b>June 30,<br/>2006<br/>Rupees</b> | <b>June 30,<br/>2005<br/>Rupees</b> |
|--------------|--|-------------------------------------|-------------------------------------|
| <b>3.3</b>   | Additions in property, plant and equipment include capitalization of following:  |                                     |                                     |
|              | Borrowing cost   | 31.2 16,542,866                     |                                     |
|              | Net results of trial run production:   |                                     |                                     |
|              | Revenue  | (53,934,445)                        |                                     |
|              | Cost of production and related expenses  | 42,691,182                          |                                     |
|              |  | (11,243,263)                        |                                     |
|              | <b>3.3.1</b>   | 5,299,603                           |                                     |
| <b>3.3.1</b> | Out of total amount, Rs. 4,504,662 have been capitalized under plant and machinery while Rs. 794,941 have been capitalized under building on free hold land.   |                                     |                                     |
| <b>4</b>     | <b>LONG-TERM INVESTMENT</b>  |                                     |                                     |
|              | <b>Investments available for sale designated as financial assets at fair value through profit and loss account</b>   |                                     |                                     |
|              | 50,000 ordinary shares of Rs. 10 each  | 500,000                             | 500,000                             |
|              | Less: Provision for diminution in the value of investment  | 100,000                             | 182,500                             |
|              |  | 400,000                             | 317,500                             |
| <b>4.1</b>   | This represents investment in shares of Taha Spinning Mills Limited (a listed company). The market value of these shares was Rs. 8.00 per share as at June 30, 2006 (June 30, 2005: Rs. 6.35).   |                                     |                                     |
| <b>5</b>     | <b>LONG-TERM LOANS</b>   |                                     |                                     |
|              | <b>Un-secured; considered good</b>   |                                     |                                     |
|              | Loans to related parties   | 5.1 1,355,550                       | 2,005,500                           |
|              | Other loans  | 5.2 4,831,784                       | 4,327,918                           |
|              |  | 6,187,334                           | 6,333,418                           |
| <b>5.1</b>   | <b>Loans to related parties</b>  |                                     |                                     |
|              | Balance at beginning of year   | 2,485,500                           | 2,845,500                           |
|              | Received during the year   | (649,950)                           | (360,000)                           |
|              |  | 1,835,550                           | 2,485,500                           |
|              | Current portion shown in current assets  | 10 (480,000)                        | (480,000)                           |
|              | Balance at end of year   | 5.1.1 1,355,550                     | 2,005,500                           |
|              |  | 1,355,550                           | 2,005,500                           |
| <b>5.1.1</b> | These represents interest free loans given to key management personnel under the terms of employment. The maximum amount outstanding at the end of any month during the year was Rs. 2,485,500 (June 30, 2005 : Rs. 2,845,500). These are receivable within eight years. |                                     |                                     |
| <b>5.2</b>   | <b>Other loans</b>   |                                     |                                     |
|              | Loans to employees and staff   | 12,236,300                          | 11,583,093                          |
|              | Current portion shown in current assets  | 10 (7,404,516)                      | (7,255,175)                         |
|              |  | 4,831,784                           | 4,327,918                           |
| <b>5.2.1</b> | These are receivable over two to five years and are given under the terms of employment.   |                                     |                                     |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

|  | June 30,<br>2006<br>Rupees | June 30,<br>2005<br>Rupees |
|--|----------------------------|----------------------------|
| <b>6 LONG-TERM DEPOSITS</b>  |                            |                            |
| Deposits in respect of:  |                            |                            |
| Lease security   | 12,800,000                 | 12,800,000                 |
| Electricity  | 1,623,060                  | 1,623,060                  |
| Telephone and telex  | 67,900                     | 122,900                    |
| Others   | 346,591                    | 120,476                    |
|  | <u>14,837,551</u>          | <u>14,666,436</u>          |
| Current portion shown in current assets  | <b>11</b> <u>5,542,507</u> | <u>-</u>                   |
|  | <u>9,295,044</u>           | <u>14,666,436</u>          |
| <b>7 STORES, SPARE PARTS AND LOOSE TOOLS</b>   |                            |                            |
| Stores   | 14,626,251                 | 11,485,458                 |
| Spare parts  | 9,652,355                  | 12,223,456                 |
| Loose tools  | 229,688                    | 416,795                    |
|  | <u>24,508,294</u>          | <u>24,125,709</u>          |
| <b>8 STOCK-IN-TRADE</b>  |                            |                            |
| Raw material   | 361,123,391                | 711,517,263                |
| Raw material in transit  | 46,282,119                 | -                          |
| Work in process  | 31,547,899                 | 17,182,139                 |
| Finished goods   | 154,348,388                | 56,222,769                 |
| Waste  | 733,921                    | 496,592                    |
|  | <u>594,035,718</u>         | <u>785,418,763</u>         |
| <b>8.1</b> Finished goods of Rs. 8,284,598 (June 30, 2005 : 26,588,447) are being carried at net realizable value. |                            |                            |
| <b>9 TRADE DEBTS</b>   |                            |                            |
| Foreign - secured through letters of credit  | 9,484,453                  | 406,735                    |
| Local - unsecured; considered good   | 171,482,461                | 154,566,795                |
| - considered doubtful  | 5,122,656                  | 4,775,611                  |
|  | 186,089,570                | 159,749,141                |
| Less: Provision for doubtful debts   | 5,122,656                  | 4,775,611                  |
|  | <u>180,966,914</u>         | <u>154,973,530</u>         |
| <b>10 LOANS AND ADVANCES</b>   |                            |                            |
| Advances to:   |                            |                            |
| suppliers - unsecured; considered good   | 14,177,450                 | 5,409,297                  |
| staff - unsecured; considered good   | 400,856                    | -                          |
| Advance income tax   | <b>10.1</b> 16,540,628     | 29,682,973                 |
| Current portion of long-term loans to:   |                            |                            |
| related parties  | <b>5.1</b> 480,000         | 480,000                    |
| other  | <b>5.2</b> 7,404,516       | 7,255,175                  |
|  | <u>39,003,450</u>          | <u>42,827,445</u>          |
| <b>10.1</b> Advance income tax   | 37,472,334                 | 50,645,322                 |
| Provision for taxation   | 20,931,706                 | 20,962,349                 |
|  | <u>16,540,628</u>          | <u>29,682,973</u>          |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

|   | <b>June 30,<br/>2006<br/>Rupees</b> | <b>June 30,<br/>2005<br/>Rupees</b> |
|---|-------------------------------------|-------------------------------------|
| <b>11 TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS</b> |                                     |                                     |
| Trade deposits                                      | 570,670                             | 1,906,115                           |
| Deposit against infrastructure fee payable          | <b>11.1</b> 10,900,000              | 6,300,000                           |
| Short-term prepayments                              | 894,642                             | -                                   |
| Margin against letters of credit                    | 1,287,995                           | 64,572                              |
| Current portion of long-term deposits               | <b>6</b> 5,542,507                  | -                                   |
|   | 19,195,814                          | 8,270,687                           |

**11.1** Effective mark up rate in respect of deposit against infrastructure fee payable ranges from three percent to four percent (June 30, 2005: three percent to four percent) per annum.

**12 OTHER RECEIVABLES**

|  |         |           |
|--|---------|-----------|
| Shortage claim receivables - considered good | 9,485   | 6,518,836 |
| Other - considered good                      | 157,088 | -         |
| - considered doubtful                        | 567,435 | 181,365   |
|  | 734,008 | 6,700,201 |
| Less: Provision for doubtful receivables     | 567,435 | 181,365   |
|  | 166,573 | 6,518,836 |

**TAXATION**

|                                       |            |           |
|---------------------------------------|------------|-----------|
| <b>13</b> Octroi refundable           | 499,259    | 499,259   |
| Sales tax refundable                  | 21,432,496 | 5,620,120 |
|                                       | 21,931,755 | 6,119,379 |
| Less: Provision for octroi refundable | 499,259    | -         |
|                                       | 21,432,496 | 6,119,379 |

**BANK BALANCES**

**14** Balances with banks on:

|                  |                 |            |
|------------------|-----------------|------------|
| Current accounts | 14.1 23,820,191 | 12,223,409 |
| Saving account   | 14.2 38,659     | -          |
|                  | 23,858,850      | 12,223,409 |

**14.1** This includes Rs.193,702 (June 30, 2005 : 99,495) in foreign currency [US\$ 3,223.01 @ 60.10 (June 30, 2005: US\$ 1,669.38 @ 59.60)].

**14.2** Effective mark up rate in respect of saving account ranges from four percent to six percent per annum.

**15 ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

| <b>No. of Shares</b>    |                         |                                |            |            |
|-------------------------|-------------------------|--------------------------------|------------|------------|
| <b>June 30<br/>2006</b> | <b>June 30<br/>2005</b> |                                |            |            |
| 1,762,500               | 1,762,500               | Ordinary shares of Rs. 10 each |            |            |
|                         |                         | - fully paid in cash           | 17,625,000 | 17,625,000 |
| 1,237,500               | 1,237,500               | - issued as bonus shares       | 12,375,000 | 12,375,000 |
| 3,000,000               | 3,000,000               |                                | 30,000,000 | 30,000,000 |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**16 LONG TERM FINANCING  
From financial institutions - secured**

| Description           | Note | Interest   | Security   | Repayment  | June 30 2006<br>Rupees | June 30 2005<br>Rupees |
|-----------------------|------|--|--|--|------------------------|------------------------|
| Term loan             |      | Six months T-Bill cutoff rate plus 1.00% (June 30, 2005 : six months T-Bill cutoff rate plus 1.00%) per annum.   | First pari passu hypothecation for Rs. 84million over plant and machinery of Bhanero Unit II located at Ferozewatuwan, Sheikhpura - Faisalabad Road, Sheikhpura.   | Repayable in twelve equal quarterly installments commencing from January 13, 2004.   | 10,000,000             | 30,000,000             |
| Term loan             | 16.1 | Six months KIBOR plus one percent swapped by fixed rate of 10.90% (June 30, 2005:Six months KIBOR plus one percent swapped by fixed rate of 10.90%).       | First equitable mortgage on all the piece and parcel of plant at site, Kotri, with all present and future construction including land, building, factory and furniture, fixture, fitting machinery equipment plant thereon in the name of the Company. | Repayable in ten equal half yearly installments, commencing from September 16, 2006. | 250,000,000            | 250,000,000            |
| Term Loan             | 16.2 | Three months KIBOR plus one percent swapped by fixed rate of 11.50% (June 30, 2005 : Three months KIBOR plus one percent swapped by fixed rate of 11.50%). | First pari passu equitable mortgage over land and building and 1st pari passu hypothecation on plant and machinery of Rs. 534 million of Bhanero Unit III located at Ferozewatuwan, Sheikhpura-Faisalabad Road, Sheikhpura.                            | Repayable in fourteen equal quarterly installments commencing from March 24, 2007.   | 400,000,000            | 400,000,000            |
| Term loan             | 16.3 | Three months KIBOR plus one percent swapped by 11.25%.   | First pari passu equitable mortgage over land and building and 1st pari passu hypothecation on plant and machinery of Rs. 534 million of Bhanero Unit III located at Ferozewatuwan, Sheikhpura-Faisalabad Road, Sheikhpura.                            | Repayable in fourteen equal quarterly installments commencing from April 19, 2007.   | 400,000,000            | -                      |
| Term loan             |      | Six months KIBOR plus 2.25 percent   | First pari passu charge of Rs. 267 million over present and future fixed assets of Unit II of the Bhanero Textile Mills Limited located at Ferozewatuwan, Sheikhpura-Faisalabad Road, Sheikhpura.  | Repayable in ten equal semi annual installments commencing from December 21, 2007.   | 200,000,000            | -                      |
|                       |      |  |  |  | 1,260,000,000          | 680,000,000            |
| Less: Current portion |      |  |  |  | 145,714,287            | 20,000,000             |
|                       |      |  |  |  | <u>1,114,285,713</u>   | <u>660,000,000</u>     |

**16.1** The Company has entered into interest rate swap agreement with the treasury department of the concerned financial institution in respect of this loan. The agreement is effective from the date of disbursement of loan and have following significant terms:

|                          |  |
|--------------------------|--|
| Notional amount          | Rs. 250 million amortized up to March 16, 2011 |
| Maturity                 | March 16, 2011                                 |
| Mark up to be paid       | 10.90% per annum                               |
| Mark up (to be received) | Six months KIBOR plus one percent              |

**16.2** The Company has entered into interest rate swap agreement with the treasury department of the concerned financial institution in respect of this loan. The agreement is effective from the July 04, 2005 and have following significant terms:

|                          |   |
|--------------------------|---|
| Notional amount          | Rs. 400 million amortized up to June 25, 2010 |
| Maturity                 | June 25, 2010                                 |
| Mark up to be paid       | 11.50% per annum                              |
| Mark up (to be received) | Three months KIBOR plus one percent           |

**16.3** The Company has entered into interest rate swap agreement with another financial institution in respect of this loan. The agreement is effective from the July 19, 2005 and have following significant terms:

|                          |   |
|--------------------------|---|
| Notional amount          | Rs. 400 million amortized up to July 19, 2010 |
| Maturity                 | July 19, 2010                                 |
| Mark up to be paid       | 11.25% per annum                              |
| Mark up (to be received) | Three months KIBOR plus one percent           |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

| 17 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE | June 30,<br>2006<br>Rupees | June 30,<br>2005<br>Rupees |
|--|----------------------------|----------------------------|
| Present value of minimum lease payments                | 56,250,447                 | 94,243,415                 |
| Less: Current portion                                  | 40,336,284                 | 37,992,968                 |
|  | 15,914,163                 | 56,250,447                 |

These represents finance obtained under various lease agreements. The total minimum lease payment are payable in thirty six equal monthly installments. The internal rate of return of 6% (June 30, 2005 : ranging from 6% to 14.50%) per annum are used as discounting factor. Taxes, repairs, replacement and insurance costs are borne by the Company.

The company intends to exercise its option to purchase the above assets upon completion of the lease period.

| 17.1 Reconciliation between minimum lease payments and its present value is as under: | June 30, 2006          |   | June 30, 2005          |   |
|---|------------------------|---|------------------------|---|
|   | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| Payable within one year   | 42,021,264             | 40,336,284                              | 41,518,426             | 37,992,968                              |
| Payable after one year but not more than five years                                   | 15,935,492             | 15,914,163                              | 57,781,544             | 56,250,447                              |
|   | 57,956,756             | 56,250,447                              | 99,299,970             | 94,243,415                              |
| Less: Amount representing financial charges   | 1,706,309              | -                                       | 5,056,555              | -                                       |
| Present value of minimum lease payments   | 56,250,447             | 56,250,447                              | 94,243,415             | 94,243,415                              |
| Less: Current portion   | 40,336,284             | 40,336,284                              | 37,992,968             | 37,992,968                              |
|   | 15,914,163             | 15,914,163                              | 56,250,447             | 56,250,447                              |

| 18 LONG-TERM MURABAHA          | June 30,<br>2006<br>Rupees | June 30,<br>2005<br>Rupees |
|--------------------------------|----------------------------|----------------------------|
| From commercial bank - secured | 58,863,636                 | 80,681,818                 |
| Less: Current portion          | 21,818,182                 | 21,818,182                 |
|                                | 37,045,454                 | 58,863,636                 |

18.1 The facility is secured through registered first pari passu charge over plant and machinery and equitable mortgage of land / building of the Unit-II of the Company to the extent of Rs. 172 million. The facility is repayable in eleven equal semi annual installments with grace period of six months. Mark up is payable in twelve semi-annual installments in arrears. Mark-up rate is average of last three cut off yields on five year Pakistan Investment Bond plus 2%, with a floor of 7.00% per annum.

19 INFRASTRUCTURE FEE PAYABLE

This represents amount payable to Excise and Taxation department, Government of Sindh in respect of infrastructure fee. The Company has filed appeal before Honorable Sindh High Court ("SHC") against levy of said fee on imports by the Company. Pending the decision on appeal, SHC has directed that imports of the Company be released against furnishing of bank guarantee.

| 20 DEFERRED LIABILITIES:     | Note | June 30,<br>2006<br>Rupees | (restated)<br>June 30, 2005<br>Rupees |
|------------------------------|------|----------------------------|---------------------------------------|
| Employee retirement benefits | 20.2 | 34,077,971                 | 31,131,840                            |
| Deferred taxation            | 20.3 | 64,661,587                 | 49,121,652                            |
|                              |      | 98,739,558                 | 80,253,492                            |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

- 20.1** Actuarial valuation has been carried out internally by the management of the Company as at June 30, 2006 using the "Projected Unit Credit Method" assuming a discount rate of 9% (June 30, 2005 : 9%) per annum, expected rate of increase in salaries at 9% (June 30, 2005 : 9%) per annum and average expected remaining life time of employees of 11 (June 30, 2005 : 11) years.

| <b>20.2 Movement in liability recognized in the balance sheet</b> | <b>June 30,<br/>2006<br/>Rupees</b> | <b>June 30,<br/>2005<br/>Rupees</b> |
|---|-------------------------------------|-------------------------------------|
| Balance at beginning of year                                      | 31,131,840                          | 26,528,247                          |
| Charged to profit and loss account                                | <b>20.2.1</b> 9,702,140             | 7,758,616                           |
| Benefits paid during the year                                     | (6,756,009)                         | (3,155,023)                         |
| Balance at end of year  | <u>34,077,971</u>                   | <u>31,131,840</u>                   |

**20.2.1 The following amounts have been charged to the profit and loss account during year**

|  | <b>Year ended<br/>June 30, 2006<br/>Rupees</b> | <b>Nine months ended<br/>June 30, 2005<br/>Rupees</b> |
|--|--|---|
| Current service cost                             | 5,094,356                                      | 4,334,131   |
| Interest cost                                    | 2,391,761                                      | 2,212,654   |
| Actuarial losses recognized during the year      | <u>2,216,023</u>                               | <u>1,211,831</u>                                      |
| Net amount chargeable to profit and loss account | <u>9,702,140</u>                               | <u>7,758,616</u>                                      |

**20.3 Deferred taxation (note 32)**

|   | <b>June 30,<br/>2006<br/>Rupees</b> | <b>(restated)<br/>June 30, 2005<br/>Rupees</b> |
|---|-------------------------------------|--|
| Deferred tax liability on taxable (deductible) temporary differences comprise of the following: |                                     |  |
| Accelerated tax depreciation  | 63,185,779                          | 51,176,934                                     |
| Provision for employee retirement benefits  | (4,770,916)                         | (6,015,761)                                    |
| Finance lease liabilities   | 7,043,337                           | 4,918,348                                      |
| Provision for doubtful debts and doubtful receivables   | (796,613)                           | (957,869)                                      |
|   | <u>64,661,587</u>                   | <u>49,121,652</u>                              |

**20.4 PRIOR YEAR ERRORS**

The amount of provision for deferred taxation was deficient in prior years. Rectification in this respect has been made in these financial statements by restatement of figures of earliest reported period. The effect of restatement is summarized below:

**20.4.1 Before year ended September 30, 2004**

|   | <b>Rupees</b>     |
|---|-------------------|
| Unappropriated profit as at September 30, 2004 - as previously stated | 75,043,645        |
| Prior year adjustment - increase in provision for deferred taxation   | (22,435,839)      |
| Unappropriated profit as at September 30, 2004 - as restated          | <u>52,607,806</u> |

**20.4.2 Period ended June 30, 2005**

|   |                   |
|---|-------------------|
| Profit for the nine months ended June 30, 2005 - as previously reported | 90,021,593        |
| Prior year adjustment - increase in provision for deferred taxation     | (1,670,729)       |
| Profit for the nine months ended June 30, 2005 - as restated            | <u>88,350,864</u> |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

|  | June 30, 2006<br>Rupees    | June 30, 2005<br>Rupees |
|--|----------------------------|-------------------------|
| <b>21 TRADE AND OTHER PAYABLES</b>   |                            |                         |
| Creditors  | 247,214,643                | 130,398,939             |
| Accrued liabilities  | 35,611,321                 | 15,734,424              |
| Workers' profit participation fund   | <b>21.1</b> 18,850,291     | 12,921,477              |
| Workers' welfare fund  | 481,665                    | -                       |
| Unclaimed dividend   | 229,316                    | 212,940                 |
| Others   | 2,026,091                  | 2,258,996               |
|  | <u>304,413,327</u>         | <u>161,526,776</u>      |
| <b>21.1 Workers' profit participation fund</b>   |                            |                         |
| Balance at beginning of year   | 12,921,477                 | 13,149,360              |
| Interest on funds utilized in the Company's business   | <u>1,939,225</u>           | <u>2,227,917</u>        |
|  | 14,860,702                 | 15,377,277              |
| Paid to the fund during the year   | <u>5,267,488</u>           | <u>7,980,718</u>        |
|  | 9,593,214                  | 7,396,559               |
| Allocation / expense for the year  | <b>30</b> <u>9,257,077</u> | <u>5,524,918</u>        |
|  | <u>18,850,291</u>          | <u>12,921,477</u>       |
| <b>21.2</b> Interest on workers' profit participation fund has been provided @ 37.5% (June 30, 2005: 11.5%) per annum. |                            |                         |
| <b>22 MARK-UP ACCRUED ON LOANS</b>   |                            |                         |
| Mark-up accrued on:  |                            |                         |
| - long-term financing  | 17,130,617                 | 5,789,008               |
| - liabilities against assets subject to finance lease  | 175,213                    | 327,626                 |
| - long-term murabaha   | 1,086,074                  | 1,271,804               |
| - short-term borrowings  | 8,552,935                  | 8,118,705               |
| Financial liability on interest rate swapping  | <b>16</b> <u>1,278,288</u> | <u>3,246,712</u>        |
|  | <u>28,223,127</u>          | <u>18,753,855</u>       |
| <b>23 SHORT-TERM BORROWINGS</b>  |                            |                         |
| <b>From banking companies - secured</b>  |                            |                         |
| Short term money market loan   | 511,500,000                | 100,000,000             |
| Running finance  | 4,838,225                  | 533,550,321             |
|  | <u>516,338,225</u>         | <u>633,550,321</u>      |

**23.1** The aggregate unavailed short term borrowing facilities amounts to Rs. 1,844 (June 30, 2005 : Rs.1,546) million.

**23.2** These facilities have been obtained from various commercial banks for working capital requirements, and are secured against first pari passu charge over all present and future current assets of the Company amounting to Rs. 2,826.75 million (June 30, 2006: Rs. 1, 575) ranking charge over all present and future current assets of the Company amounting to Rs. 1,067 and personal guarantee of directors of the Company. These facilities are subject to mark-up ranging from 7 percent to 11 percent (June 30, 2005: 3.06 percent to 7.83 percent) per annum payable quarterly.

**24 CONTINGENCIES AND COMMITMENTS**

*Contingencies*

**24.1** Provincial Government of Sindh has imposed professional tax on the Company. As per applicable schedule based on paid-up share capital of the Company, Rs. 20,000 per annum were payable w.e.f. year 2000. The Company filed an appeal with SHC against the levy of such tax. The SHC issued its judgment in favour of Company, against which Government of Sindh has filed appeal with Honorable Supreme Court of Pakistan ("SC"). The decision on appeal with SC is pending.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**24.2** In normal course of business, the Company has issued indemnity bonds and cheques amounting to Rs. 24.74 million (June 30, 2005 : Rs. 10.38 million) in favour of collectors of custom and sales tax department in lieu of custom and sales tax levies against various statutory notifications. The indemnity bonds furnished by the company are likely to be released after the fulfillment of term of related SROs.

**24.3** An amount of Rs. 9,587,657 is payable by the Company in respect of excise duty payable on bank loans. The company has challenged the levy of such duty in Sindh High Court (SHC) through its joint appeal with APTMA. SHC has passed judgment in favour of the company, however the Federation of Pakistan has filed appeal before the Supreme Court against said order of SHC.

**24.4** In normal course of business, commercial banks have issued guarantees on behalf of the Company amounting to Rs. 25.52 million (2005: Nil) in favour of Sui Northern Gas Company Limited.

|   | June 30, 2006<br>Rupees | June 30, 2005<br>Rupees |
|---|-------------------------|-------------------------|
| <b>24.5</b> Bills discounted                    | 49,307,637              | 99,543,686              |
| <b>Commitments</b>                              |                         |                         |
| Letters of credit for:                          |                         |                         |
| - import of plant and machinery                 | -                       | 502,822,056             |
| - import of stores, spare parts and loose tools | 378,978                 | -                       |
| - import of raw material                        | 114,875,806             | -                       |
| Capital expenditures                            | 9,500,000               | 155,000,000             |
|   | <u>124,754,784</u>      | <u>657,822,056</u>      |

|                     | Year ended June 30, 2006 |                    |                      | Nine months<br>ended June<br>30, 2005 |
|---------------------|--------------------------|--------------------|----------------------|---------------------------------------|
|                     | Local                    | Export             | Total                |                                       |
| <b>25 SALES-NET</b> |                          |                    |                      |                                       |
| Gross sales:        |                          |                    |                      |                                       |
| Yarn                | 1,488,543,275            | 283,055,886        | 1,771,599,161        | 1,291,495,617                         |
| Fabric              | 366,031,729              | 516,158,410        | 882,190,139          | -                                     |
| Waste               | 39,111,018               | -                  | 39,111,018           | 24,995,080                            |
|                     | <u>1,893,686,022</u>     | <u>799,214,296</u> | <u>2,692,900,318</u> | <u>1,316,490,697</u>                  |
| Less : Sales tax    | -                        | -                  | -                    | 127,867,063                           |
| Commission          | 15,706,938               | 5,515,543          | 21,222,481           | 13,830,898                            |
|                     | <u>1,877,979,084</u>     | <u>793,698,753</u> | <u>2,671,677,837</u> | <u>1,174,792,736</u>                  |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

|  | <b>Year ended<br/>June 30, 2006<br/>Rupees</b> | <b>Nine months<br/>ended June 30,<br/>2005<br/>Rupees</b> |
|--|--|---|
| <b>28 DISTRIBUTION COST</b>  |  |   |
| <b>Export</b>  |  |   |
| Freight on export sales  | 13,164,173                                     | 4,974,501   |
| Export development surcharge   | 1,517,050                                      | 541,652   |
| Others   | 1,340,941                                      | 661,663   |
|  | 16,022,164                                     | 6,177,816   |
| <b>Local</b>   |  |   |
| Freight on local sales   | 8,231,242                                      | 4,029,470   |
| Others   | 2,888,877                                      | 2,872,142   |
|  | 11,120,119                                     | 6,901,612   |
|  | <u>27,142,283</u>                              | <u>13,079,428</u>   |
| <b>29 ADMINISTRATIVE EXPENSES</b>  |  |   |
| Directors' remuneration  | 1,920,000                                      | 1,101,000   |
| Staff salaries and benefits  | 20,630,717                                     | 15,284,969  |
| Rent, rates and taxes  | 1,425,426                                      | 1,566,074   |
| Printing and stationery  | 1,244,956                                      | 730,300   |
| Postage and telephone  | 2,795,426                                      | 2,776,088   |
| Repair and maintenance   | 877,825  | 681,833   |
| Computer expenses  | 100,000  | 50,000  |
| Vehicles running and maintenance   | 4,008,972                                      | 1,917,853   |
| Traveling and conveyance   | 3,106,673                                      | 2,392,321   |
| Legal and professional   | 658,000  | 204,000   |
| Auditors' remuneration   | 310,000  | 175,000   |
| Charity and donations  | 245,000  | 261,950   |
| Fees and subscription  | 882,096  | 989,425   |
| Depreciation   | 3,965,509                                      | 2,643,765   |
| Provision for doubtful debts and receivables   | 1,232,374                                      | 872,500   |
| Others   | 532,976  | 294,001   |
|  | <u>43,935,950</u>                              | <u>31,941,079</u>   |
| <b>29.1</b> Staff salaries and benefits include employees benefits amounting to Rs.2,937,531 (June 30, 2005:Rs.1,473,903). |  |   |
| <b>29.2 Auditors' remuneration</b>   |  |   |
| Annual statutory audit   | 150,000  | 115,000   |
| Half yearly review   | 80,000   | 35,000  |
| Review report on compliance with code of corporate governance  | 45,000   | 25,000  |
| Out of pocket  | 35,000   | -   |
|  | <u>310,000</u>                                 | <u>175,000</u>  |
| <b>29.3</b> No director or his spouse has any interest in the donee.   |  |   |
| <b>30 OTHER OPERATING EXPENSES</b>   |  |   |
| Loss on sale of cotton   | -  | 6,050,828   |
| Workers' profit participation fund   | 9,257,077                                      | 5,524,918   |
| Workers' welfare fund  | 481,665  | -   |
|  | <u>9,738,742</u>                               | <u>11,575,746</u>   |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

| <b>31 FINANCE COST</b>                                | <b>Year ended June<br/>30, 2006</b> | <b>Nine months ended<br/>June 30, 2005</b> |
|---|-------------------------------------|--|
|   | <b>Rupees</b>                       | <b>Rupees</b>                              |
| Mark-up on:   |                                     |  |
| - long term financing                                 | <b>31.1</b> 106,201,507             | 9,357,573                                  |
| - liabilities against assets subject to finance lease | 3,700,671                           | 4,278,273                                  |
| - long-term murabaha                                  | 5,159,582                           | 4,713,250                                  |
| - short term borrowings                               | 80,689,232                          | 31,750,525                                 |
| - workers' profit participation fund                  | 1,939,226                           | 2,227,917                                  |
| Bank charges and commission                           | 3,243,571                           | 2,124,361                                  |
|   | <u>200,933,789</u>                  | <u>54,451,899</u>                          |
| Less : borrowing cost                                 | <b>31.2</b> <u>16,542,866</u>       | <u>5,748,631</u>                           |
|   | <u>184,390,923</u>                  | <u>48,703,268</u>                          |

**31.1** It includes loss on interest rate swapping amounting to Rs. 14,996,248 (June 30, 2005: 3,246,712). Please see note 16).

**31.2** Borrowing costs included in the cost of qualifying assets during the year arose on the borrowing pool and are calculated by applying a capitalization rate of 11.25% (June 30, 2005: 3.70%) to expenditure on such assets.

| <b>32 PROVISION FOR TAXATION</b> | <b>Year ended June<br/>30, 2006</b> | <b>(restated)<br/>Nine months ended<br/>June 30, 2005</b> |
|----------------------------------|-------------------------------------|---|
| Current                          |                                     |   |
| - for the year                   | 20,931,706                          | 6,282,012   |
| - for prior years                | (585,321)                           | (15,828)  |
|                                  | 20,346,385                          | 6,266,184   |
| Deferred                         | <b>20.3</b> <u>15,539,935</u>       | <u>8,128,475</u>  |
|                                  | <u>35,886,320</u>                   | <u>14,394,659</u>   |

**32.1** Provision for the current year has been made under normal tax regime of Income Tax Ordinance 2001. Assessment for the tax year 2005 and transitional tax year 2005 are deemed assessments in terms of section 120 (1) of the Ordinance, as per returns filed by the Company.

**32.2 Numerical reconciliation between the average tax rate and the applicable tax rate**

|  | %             | %             |
|--|---------------|---------------|
| Applicable tax rate                                    | <u>35.00</u>  | <u>35.00</u>  |
| Tax effect of  |               |               |
| - income assessed under final tax regime               | 13.08         | 4.24          |
| - adjustments of prior years in respect of current tax | -0.34         | -0.02         |
| - income chargeable to tax at special rate             | 2.52          | -             |
| - deferred tax   | -28.64        | -25.44        |
| - inadmissible expenses                                | 0.14          | 0.23          |
| - others   | -1.09         | -             |
|  | <u>-14.33</u> | <u>-20.99</u> |
|  | <u>20.67</u>  | <u>14.01</u>  |

**33 EARNINGS PER SHARE - BASIC AND DILUTED**

The calculation of the basic earnings per share is based on the following data:

**Earnings**

|  |                    |                   |
|--|--------------------|-------------------|
| Earnings for the purpose of basic earnings per share (net profit after tax for the year) | <u>137,577,239</u> | <u>88,350,864</u> |
|--|--------------------|-------------------|

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**Number of shares**

Weighted average number of ordinary shares

Basic earnings per share have been computed by dividing earnings as stated above with weighted average number of ordinary shares.

|           |           |
|-----------|-----------|
| 3,000,000 | 3,000,000 |
|-----------|-----------|

**Basic earnings per share**

No figure for diluted earnings per share has been presented as the Company has not issued any instruments carrying options which would have an impact on earnings per share when exercised.

|              |              |
|--------------|--------------|
| <b>45.86</b> | <b>29.45</b> |
|--------------|--------------|

**34 DIVIDEND**

In respect of current year, the directors have proposed to pay cash dividend of Rs. 7,500,000 @ Rs. 2.5 per ordinary share of Rs.10 each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment.

**35 NON-CASH TRANSACTIONS**

Additions to plant and machinery during the year amounting to Rs 4.155 (June 30, 2005: Rs 6.337) million relate to provision made in respect of infrastructure fee payable.

**36 REMUNERATION OF CHIEF EXECUTIVE OFFICER AND DIRECTORS**

|                   | CHIEF EXECUTIVE OFFICER       |                                      | DIRECTORS                     |                                      |
|-------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|
|                   | Year ended<br>June<br>30,2006 | Nine Months<br>ended<br>June 30,2005 | Year ended<br>June<br>30,2006 | Nine Months<br>ended<br>June 30,2005 |
|                   | ← R U P E E S →               |                                      |                               |                                      |
| Remuneration      | 662,069                       | 379,653                              | 662,069                       | 379,653                              |
| House Rent        | 297,931                       | 170,847                              | 297,931                       | 170,847                              |
|                   | 960,000                       | 550,500                              | 960,000                       | 550,500                              |
| Number of persons | 1                             | 1                                    | 1                             | 1                                    |

**36.1** In addition the Chief Executive Officer and all directors are provided with free use of Company maintained cars and telephone for business use amounting to Rs.97,652 (June 30, 2005: Rs. 80,474).

**37 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

**37.1 Interest rate risk management**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Changes in interest rates can affect the rates charged on interest bearing liabilities. This can result in an increase in interest expense relative to financial borrowings or vice versa. The Company manages its risk by interest rate swapping, by maintaining a fair balance between interest rates and financial assets and financial liabilities. The effective interest rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

|  | June 30, 2006                     |                                       |                        | June 30, 2005                     |                                       |                        |
|--|-----------------------------------|---------------------------------------|------------------------|-----------------------------------|---------------------------------------|------------------------|
|  | Interest /<br>Mark- up<br>bearing | Non Interest /<br>Mark- up<br>bearing | Total                  | Interest /<br>Mark- up<br>bearing | Non Interest /<br>Mark- up<br>bearing | Total                  |
| <b>RUPEES</b>  |                                   |                                       |                        |                                   |                                       |                        |
| <b>Financial assets</b>                                |                                   |                                       |                        |                                   |                                       |                        |
| Maturity up to one year                                |                                   |                                       |                        |                                   |                                       |                        |
| Trade debts  | -                                 | 180,966,914                           | 180,966,914            | -                                 | 154,973,530                           | 154,973,530            |
| Loans and advances                                     | -                                 | 8,285,372                             | 8,285,372              | -                                 | 7,735,175                             | 7,735,175              |
| Trade deposits   | -                                 | 18,301,172                            | 18,301,172             | -                                 | 8,270,687                             | 8,270,687              |
| Other receivables                                      | -                                 | 166,573                               | 166,573                | -                                 | 6,518,836                             | 6,518,836              |
| Bank balances  | -                                 | 23,858,850                            | 23,858,850             | -                                 | 12,223,409                            | 12,223,409             |
| Maturity after one year                                |                                   |                                       |                        |                                   |                                       |                        |
| Long-term investments                                  | -                                 | 400,000                               | 400,000                | -                                 | 317,500                               | 317,500                |
| Long-term loans  | -                                 | 6,187,334                             | 6,187,334              | -                                 | 6,333,418                             | 6,333,418              |
| Long-term deposits                                     | -                                 | 9,295,044                             | 9,295,044              | -                                 | 14,666,436                            | 14,666,436             |
|  | -                                 | 247,461,259                           | 247,461,259            | -                                 | 211,038,991                           | 211,038,991            |
| <b>Financial liabilities</b>                           |                                   |                                       |                        |                                   |                                       |                        |
| Maturity up to one year                                |                                   |                                       |                        |                                   |                                       |                        |
| Long-term financing                                    | 145,714,287                       | -                                     | 145,714,287            | 20,000,000                        | -                                     | 20,000,000             |
| Liabilities against assets<br>subject to finance lease | 40,336,284                        | -                                     | 40,336,284             | 37,992,968                        | -                                     | 37,992,968             |
| Long term murabaha                                     | 21,818,182                        | -                                     | 21,818,182             | 21,818,182                        | -                                     | 21,818,182             |
| Trade and other payables                               | 18,850,291                        | 285,081,371                           | 303,931,662            | 12,921,477                        | 148,605,299                           | 161,526,776            |
| Mark-up accrued on loan                                | -                                 | 28,223,127                            | 28,223,127             | -                                 | 18,753,855                            | 18,753,855             |
| Short-term borrowings                                  | 516,338,225                       | -                                     | 516,338,225            | 633,550,321                       | -                                     | 633,550,321            |
| Maturity after one year                                |                                   |                                       |                        |                                   |                                       |                        |
| Long term financing                                    | 1,114,285,713                     | -                                     | 1,114,285,713          | 660,000,000                       | -                                     | 660,000,000            |
| Liabilities against assets<br>subject to finance lease | 15,914,163                        | -                                     | 15,914,163             | 56,250,447                        | -                                     | 56,250,447             |
| Long term murabaha                                     | 37,045,454                        | -                                     | 37,045,454             | 58,863,636                        | -                                     | 58,863,636             |
| Infrastructure fee payable                             | 10,492,957                        | -                                     | 10,492,957             | 6,337,643                         | -                                     | 6,337,643              |
|  | 1,920,795,556                     | 313,304,498                           | 2,234,100,054          | 1,507,734,674                     | 167,359,154                           | 1,675,093,828          |
| <b>On balance sheet gap</b>                            | <b>(1,920,795,556)</b>            | <b>(65,843,239)</b>                   | <b>(1,986,638,795)</b> | <b>(1,507,734,674)</b>            | <b>43,679,837</b>                     | <b>(1,464,054,837)</b> |
| <b>Contingencies and commitments</b>                   |                                   |                                       |                        |                                   |                                       |                        |
| Letters of credit for:                                 |                                   |                                       |                        |                                   |                                       |                        |
| - import of plant and machinery                        | -                                 | -                                     | -                      | -                                 | 502,822,056                           | 502,822,056            |
| - import of stores, spare parts and loose tools        | -                                 | 378,978                               | 378,978                | -                                 | -                                     | -                      |
| - import of raw material                               | -                                 | 114,875,806                           | 114,875,806            | -                                 | -                                     | -                      |
| Capital expenditure                                    | -                                 | 9,500,000                             | 9,500,000              | -                                 | 155,000,000                           | 155,000,000            |
|  | -                                 | 124,754,784                           | 124,754,784            | -                                 | 657,822,056                           | 657,822,056            |

### 37.2 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs. 247,461,259 (June 30, 2005: Rs. 211,038,991), local trade debts and other receivables amounting to Rs. 171,649,034 (June 30, 2005: Rs.161,085,631) are subject to credit risk. The Company manages its credit risk by limiting significant exposure to any individual customers and obtaining advance against sales.

### 37.3 Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. The management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**37.4 Foreign exchange riskmanagement**

Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. However, the Company is not exposed to any significant foreign currency risk. As at June 30, 2006, the total foreign currency risk exposure was Rs 9,484,453 (June 30, 2005: Rs. 406,735) in respect of foreign trade debts.

**37.5 Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

**38 RELATED PARTY TRANSACTIONS**

The related parties comprise holding company, subsidiaries and associated undertakings, other related group companies, directors of the Company, key management personnel and post employment benefit plans. The Company in the normal course of business carries out sale and purchase of goods and services transactions with various related parties. Nature and description of related party transactions along with monetary value are as follow:

| Nature of relationship                          | Nature of transactions                   | Year ended<br>June 30, 2006 | Nine months ended<br>June 30, 2005 |
|---|--|-----------------------------|------------------------------------|
| <b>Associated undertaking</b>                   | Purchase of raw material and other goods | 72,266,943                  | 26,025,124                         |
|   | Purchase of fabric                       | 25,454,754                  | -                                  |
|   | Purchase of land                         | -                           | 6,412,500                          |
|   | Purchase of plant and machinery          | 5,295,406                   | 15,807,800                         |
|   | Sale of raw material                     | 387,916,707                 | 234,774,750                        |
|   | Sale of fabric                           | 166,805,751                 | -                                  |
|   | Services received                        | -                           | 324,000                            |
|   | Services rendered                        | 9,212,400                   | 16,129,950                         |
|   | Electricity billing                      | 216,030,193                 | 134,888,449                        |
| <b>Compensation of key management personnel</b> | Remuneration and other benefits          | 780,000                     | 572,000                            |
|   | Post employment benefits                 | 145,772                     | 130,765                            |

**39 PLANT CAPACITY AND ACTUAL PRODUCTION**

**39.1 Spinning**

|  |            |            |
|--|------------|------------|
| Number of spindles installed   | 67,776     | 67,776     |
| Number of rotors installed   | 192        | 192        |
| Number of spindles worked  | 67,776     | 67,776     |
| Number of rotors worked  | 192        | 192        |
| Number of shifts per day   | 3          | 3          |
| Installed capacity after conversion into 20 / s counts (Kgs.)        | 23,200,746 | 14,489,726 |
| Actual production of yarn after conversion into 20 / s counts (Kgs.) | 25,541,642 | 15,281,522 |

**39.2 Weaving**

|  |            |   |
|--|------------|---|
| Number of looms installed  | 140        | - |
| Number of looms worked   | 140        | - |
| Number of working days   | 303        | - |
| Installed capacity after conversion into 50 picks (based on no. of actual working days)          | 20,034,909 | - |
| Actual production of fabric after conversion into 50 picks (based on no. of actual working days) | 24,198,242 | - |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

39.3 It is difficult to precisely describe production capacity and the resultant production in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed, twist etc in case of spinning. In case of weaving fluctuation depends on factors such as loom width, width of fabric produced, type of yarn used etc. It would vary accordingly to the pattern of production adopted in a particular year.

39.4 Power

|   |                |            |   |
|---|----------------|------------|---|
| Installed/actual capacity for the year at 100 percent efficiency (based on 80 days of operations) | Kilowatt Hours | 12,096,000 | - |
| Power generated during the year   |                |            |   |

|   |                |            |   |
|---|----------------|------------|---|
| 39.5 The difference between installed capacity and actual production is in normal course of business. | Kilowatt Hours | 11,448,000 | - |
|---|----------------|------------|---|

40 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the board of directors of the Company and authorized for issue on October 7, 2006.

41 RECLASSIFICATION

Corresponding figures have been re-arranged and re-classified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant re-classifications made are as follows:

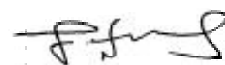
| From                                      | To   | Reason                  | Amount (Rupees) |
|---|--|-------------------------|-----------------|
| <b>Balance sheet items</b>                |  |                         |                 |
| Stock-in-trade                            | Stores, spare parts and loose tools        | For better presentation | 2,060,827       |
| Provision for taxation                    | Loans and advances                         | For better presentation | (20,962,349)    |
| Trade deposits and short-term prepayments | Loans and advances                         | For better presentation | 480,000         |
| Trade deposits                            | Deposit against infrastructure fee payable | For better presentation | 6,300,000       |
| Mark-up accrued on long-term financing    | Mark-up accrued on long-term murabaha      | For better presentation | 1,271,804       |
| <b>Profit and loss account</b>            |  |                         |                 |
| Mark-up on long-term financing            | Mark-up on long-term murabaha              | For better presentation | 4,713,250       |
| <b>Cash flow statement</b>                |  |                         |                 |
| Infrastructure fee payable                | Purchase of property, plant and equipment  | For better presentation | 6,337,643       |

42 GENERAL

The figures have been rounded off to the nearest Rupee.



MOHAMMAD SALIM  
CHIEF EXECUTIVE / DIRECTOR



MOHAMMAD SHAKEEL  
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**PATTERN OF SHAREHOLDING AS AT 30-06-2006**

| NUMBER OF<br>SHAREHOLDERS | SHARE HOLDING<br>FROM TO | TOTAL<br>SHARES HELD |
|---------------------------|--------------------------|----------------------|
| 103                       | 000001 - 000100          | 10,300               |
| 36                        | 000101 - 000500          | 10,600               |
| 13                        | 000501 - 001000          | 10,800               |
| 13                        | 001001 - 005000          | 30,400               |
| 4                         | 010001 - 015000          | 50,400               |
| 2                         | 020001 - 025000          | 43,984               |
| 1                         | 025001 - 030000          | 29,872               |
| 1                         | 040001 - 045000          | 42,780               |
| 4                         | 050001 - 055000          | 204,938              |
| 3                         | 060001 - 065000          | 181,600              |
| 3                         | 070001 - 075000          | 216,400              |
| 2                         | 080001 - 085000          | 165,600              |
| 2                         | 155001 - 160000          | 317,900              |
| 1                         | 165001 - 170000          | 165,142              |
| 1                         | 170001 - 175000          | 170,400              |
| 1                         | 250001 - 255000          | 250,176              |
| 1                         | 265001 - 270000          | 267,825              |
| 1                         | 330001 - 335000          | 334,283              |
| 1                         | 495001 - 500000          | 496,600              |
| <u>193</u>                |                          | <u>3,000,000</u>     |

**CATEGORYWISE SUMMARY OF SHAREHOLDERS  
AS AT 30-06-2006**

| CATEGORIES OF SHAREHOLDERS | NUMBER OF SHAREHOLDERS | SHARE HELD       | PERCENTAGE %  |
|----------------------------|------------------------|------------------|---------------|
| 1. INDIVIDUALS             | 189                    | 2,429,600        | 80.99         |
| 2. INVESTMENTS COMPANIES   | -                      | -                | -             |
| 3. INSURANCE COMPANIES     | 1                      | 70,500           | 2.35          |
| 4. JOINT STOCK COMPANIES   | 3                      | 499,900          | 16.66         |
| 5. FINANCIAL INSTITUTION   | -                      | -                | -             |
| 6. MODARABA COMPANIES      | -                      | -                | -             |
| 7. FOREIGN INVESTORS       | -                      | -                | -             |
| 8. CO-OPERATIVE SOCIETIES  | -                      | -                | -             |
| 9. CHARITABLE TRUSTS       | -                      | -                | -             |
| 10. OTHERS                 | -                      | -                | -             |
| <b>TOTAL</b>               | <b>193</b>             | <b>3,000,000</b> | <b>100.00</b> |

The above two statements include 92 Shareholders holding 632,400 Shares through the Central Depository Company of Pakistan Limited (CDC).