

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

### 1 STATUS AND ACTIVITIES

**1.1** Faisal Spinning Mills Limited ("the Company") was incorporated in Pakistan on January 31, 1985 as a public limited company under the 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 fabrics. The registered office of the Company is located at Umer Chambers, 10/2, Bilmoria Street, I.I Chundrigar 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 directions 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 directives. 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 Adoption of revised international accounting standards

In the current year, certain changes to International Accounting Standards (IASs) and Interpretations that are relevant to operations of the Company became effective. The changes in these IASs and Interpretations have resulted in additional disclosures and improvements in presentation of financial statements with no effect on results of operations except as stated in note 1.7 to the financial statements.

### 1.7 Investment in associates - change in accounting policy

During the year, revised International Accounting Standard - 28, Investments in Associates - revised 2004 (revised IAS), became effective. To comply with the requirements of revised IAS, the Company has changed its policy for accounting of investment in associates. These investments are now accounted for using equity method, whereas, previously these were accounted for using cost method. The change in accounting policy has been applied retrospectively. Had there been no change in accounting policy, the unappropriated profit and long-term investments would have been lower by Rs. 99.43 million (June 30, 2005: Rs. 76.43 million). Please refer note 4.3 to the financial statements for details.

### 1.8 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

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reasonable under circumstances, results of which form the basis of making judgments about the 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 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. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation require 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 management of 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 in this regard, might affect the carrying amounts of the 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. 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.

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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 Investments**

**Regular way purchase or sale of investments**

All purchases and sales of investments are recognised using trade date accounting. Trade date is the date that the Company commits to purchase or sell the investment.

**Investments in equity instruments of associated companies**

These investments are initially recognized at cost and subsequently accounted for using equity method of accounting .

**Derecognition**

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.

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

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

**2.4 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
Packing material	Weighted average cost
Waste	Net realizable value

Raw material 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 make the sale.

**2.5 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 are 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.

**2.6 Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the

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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.

Derivative financial instruments are initially measured at fair value on the contract date, and re-measured at fair value on subsequent reporting dates. Changes in fair value are recognized in profit and loss account of the relevant year, as and when arise.

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

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

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.

**2.8 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.

**2.9 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.

**2.10 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.

**2.11 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. Provisions 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 recognised in the period in which it occurs.

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

**2.12 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.

**2.13 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.

**2.14 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.

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

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

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

**2.15 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.

**2.16 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.

**2.17 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" of 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 which 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.

**2.18 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 profit and loss account.

**2.19 Dividend**

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

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**2.20 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.

**3. PROPERTY, PLANT AND EQUIPMENT**

DESCRIPTION	COST				DEPRECIATION			Book value as at 30-06-06	Rate %
	As at 01-07-05	Additions/ (Deletions)	Transfer	As at 30-06-06	As at 01-07-05	Charge for the year (Accumulated depreciation on disposals)	As at 30-06-06		
<b>RUPEES</b>									
Freehold land	9,454,028	-	-	9,454,028	-	-	-	9,454,028	-
Leasehold land	2,946,085	48,800	-	2,994,885	-	-	-	2,994,885	-
Factory building on freehold land	180,703,258	19,897,295	12,061,675	212,662,228	57,144,699	15,551,753	72,696,452	139,965,776	10
Factory building on leasehold land	69,534,262	-	12,250,986	81,785,248	42,038,561	3,974,669	46,013,230	35,772,018	10
Leasehold extension-factory building	45,883,296	-	-	45,883,296	1,147,082	4,473,621	5,620,703	40,262,593	10
Non factory building on freehold land	65,258,442	8,454,952	-	73,713,394	9,939,703	3,188,685	13,128,388	60,585,006	5
Non factory building on leasehold land	19,492,058	-	7,463,997	26,956,055	9,886,451	853,480	10,739,931	16,216,124	5
Leasehold extension-non factory building	9,169,108	-	-	9,169,108	114,614	452,725	567,339	8,601,769	5
Plant and machinery	1,747,197,930	3,719,673	74,532,290	1,790,145,641	380,361,755	141,616,729	506,262,136	1,283,883,505	10
		(35,304,252)	-	-	-	(15,716,348)	-	-	-
Electric equipment and fitting	38,707,484	10,775,349	-	49,482,833	11,767,617	2,985,821	14,753,438	34,729,395	10
Gas line and pipe fitting	3,892,577	-	-	3,892,577	814,854	307,772	1,122,626	2,769,951	10
Factory equipment	11,693,380	-	-	11,693,380	5,739,870	595,351	6,335,221	5,358,159	10
Office equipment	2,164,707	-	-	2,164,707	977,556	118,715	1,096,271	1,068,436	10
Furniture and fixtures	5,836,919	814,971	-	6,651,890	2,186,115	383,438	2,569,553	4,082,337	10
Equipment and other assets	13,528,058	5,458,946	-	18,987,004	5,767,615	4,042,127	9,809,742	9,177,262	10
Vehicles	22,355,241	1,228,528	-	22,262,509	14,116,080	1,850,357	14,861,083	7,401,426	10
		(1,321,260)	-	-	-	(1,105,354)	-	-	35
	2,247,816,833	50,398,514	106,308,948	2,367,898,783	542,002,572	180,395,243	705,576,113	1,662,322,670	20
		(36,625,512)	-	-	-	(16,821,702)	-	-	-
<b>Capital work in progress</b>									
Building and other civil work	10,932,297	23,288,135	(31,776,658)	2,443,774	-	-	-	2,443,774	-
Plant and machinery	6,146,719	75,164,498	(74,532,290)	6,778,927	-	-	-	6,778,927	-
Unallocated capital expenditure	-	417,717	-	417,717	-	-	-	417,717	-
	17,079,016	98,870,350	(106,308,948)	9,640,418	-	-	-	9,640,418	-
<b>2006</b>	2,264,895,849	149,268,864	-	2,377,539,201	542,002,572	180,395,243	705,576,113	1,671,963,088	-
		(36,625,512)	-	-	-	(16,821,702)	-	-	-
<b>2005</b>	2,068,907,981	247,039,024	-	2,264,895,849	472,047,983	99,689,303	542,002,572	1,722,893,277	-
		(51,051,156)	-	-	-	(29,734,714)	-	-	-

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	24	97,843,066
Administrative expenses	27	1,846,237
	<u>180,395,243</u>	<u>99,689,303</u>

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

Description	Cost	Accumulated Depreciation	Book value	Proceeds from disposal of property, plant and equipment	Gain on disposal of property, plant and equipment	Mode of disposal	Particular of buyer
<b>RUPEES</b>							
<b>Plant and machinery</b>							
Blow room machine	24,026,943	8,619,622	15,407,321	16,157,000	749,679	Negotiation	Blessed Textiles Limited Umer Chamber 10/2 Bilmoria Street, Off I.I Chundrigar Road, Karachi. (Related party)
Carding machine	11,277,309	7,096,726	4,180,583	4,270,406	89,823	Negotiation	Bhanero Textile Mills Limited Umer Chamber 10/2 Bilmoria Street, Off I.I Chundrigar Road, Karachi. (Related party)
<b>Vehicles</b>							
Honda City (ACC-416)	681,480	538,563	142,917	200,000	57,083	Negotiation	Mrs. Khair-un-Nisa House # D-158, Sharfabad, Karachi.
Toyota Corolla (AAK-311)	639,780	566,791	72,989	150,000	77,011	Negotiation	Mrs. Aneela Tabassum House # F-17/6, Mohalla Rabia Square Chari Khata, Hyderabad.
<b>2006</b>	36,625,512	16,821,702	19,803,810	20,777,406	973,596		
<b>2005</b>	51,051,156	29,734,714	21,316,442	22,739,500	1,423,058		

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	June 30, 2006 Rupees	(restated) June 30, 2005 Rupees
<b>4 LONG-TERM INVESTMENTS</b>		
<i>Investment in associates</i>		
Investment in Share of Blessed Textiles Ltd (1,189,160 ordinary shares of Rs. 10 each)	<u>111,319,339</u>	<u>88,210,070</u>
Cost of investment	11,891,600	11,891,600
Accumulated share of post-acquisition profit (net of dividend)	76,318,470	61,028,612
Share of profit for the year	24,001,139	16,181,728
Dividend received	(891,870)	(891,870)
	<u>99,427,739</u>	<u>76,318,470</u>
<b>4.1</b> Summeryzed financial information of Blessed Textiles Ltd. is set out below:	<u>111,319,339</u>	<u>88,210,070</u>
Total assets	2,440,626,442	1,765,458,338
Total liabilities	1,838,515,717	1,288,342,416
Net assets	<u>602,110,725</u>	<u>477,115,922</u>
Company's share of associate's net assets	<u>111,319,339</u>	<u>88,210,070</u>
	<b>Year ended June 30, 2006 Rupees</b>	<b>(restated) Nine months ended June 30, 2005 Rupees</b>
Sales- net	<u>2,927,425,775</u>	<u>1,511,120,257</u>
Profit for the year	<u>129,818,803</u>	<u>87,524,701</u>
Company's share of associate's profit for the year	<u>24,001,139</u>	<u>16,181,728</u>
	<b>June 30 2006 Rupees</b>	<b>June 30 2005 Rupees</b>
<b>4.2</b> Market value per share	71	77
Percentage of holding	18.49%	18.49%

**4.3 Change in accounting policy**

As explained in note 1.7 to the financial statements, the Company has changed its accounting policy to account for investment in associates under equity method as required by revised IAS 28, Investments in associates. The effect of change in accounting policy has been accounted for by restatement of figures of earliest reported periods. The effect of restatement is summarized below:

	Rupees
<b>Before year ended September 30, 2004</b>	
Unappropriated profit as at September 30, 2004 - as previously stated	52,472,207
Net cumulative effect due to change in accounting policy	61,028,612
Unappropriated profit as at September 30, 2004 - as restated	<u>113,500,819</u>
<b>Period ended June 30, 2005</b>	
<b>Profit for the year</b>	
Profit for nine months ended June 30, 2005 - as previously reported	115,427,985
Effect due to change in accounting policy	
- increase in profit due recognition of share of profit of associated undertaking	16,181,728
- decrease in profit due to de-recognition of dividend income	(891,870)
	<u>15,289,858</u>
Profit for nine months ended June 30, 2005 - as restated	<u>130,717,843</u>
<b>Long-term investments</b>	
Balance as at June 30, 2005 - as previously reported	11,891,600
Effect due to change in accounting policy	76,318,470
Balance as at June 30, 2005 - as restated	<u>88,210,070</u>

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5 LONG-TERM LOANS	June 30, 2006 Rupees	June 30, 2005 Rupees
<b>Un-secured; considered good</b>		
Loans to:		
-related parties	5.1 2,450,000	3,050,000
-other employees	5,239,705	5,842,492
	7,689,705	8,892,492
Less: Current portion shown in current assets	10 2,620,561	4,430,744
	5,069,144	4,461,748
<b>5.1 Loans to related parties</b>		
Balance at beginning of year	3,050,000	1,500,000
Disbursed during the year	-	2,000,000
Received during the year	(600,000)	(450,000)
	2,450,000	3,050,000
<b>5.1.1</b>	This represents interest free loans given to key management personnel under terms of their employment. The maximum amount outstanding at the end of any month during the period was Rs. 3,050,000 (June 30, 2005 : Rs. 3,250,000). These are receivable within three to five years.	
<b>6 LONG-TERM DEPOSITS</b>		
Security deposits	2,680,925	1,033,065
Others	14,800	23,750
	2,695,725	1,056,815
<b>7 STORES, SPARE PARTS AND LOOSE TOOLS</b>		
Stores	14,690,323	9,212,750
Chemicals and lubricants	6,019,116	6,039,082
Sapre parts and loose tools	8,186,065	15,549,821
	28,895,504	30,801,653
<b>8 STOCK-IN-TRADE</b>		
Raw material	322,626,992	521,521,219
Work in process	48,498,636	39,840,577
Finished goods	8.1 213,632,599	104,608,703
Waste	3,328,631	1,591,511
	588,086,858	667,562,010
<b>8.1</b>	Finished goods costing Rs.550,410 (June 30, 2005 : 9,768,798) are carried at net realizable value of Rs. 498,870 (June 30, 2005 : 7,476,451).	
<b>9 TRADE DEBTS</b>		
Foreign secured through letters of credit	17,823,236	28,819,282
Local unsecured; considered good	142,415,040	139,637,719
Considered doubtful:		
Export	13,087,779	13,088,499
Local	870,000	945,085
	174,196,055	182,490,585
Less: Provision for doubtful debts	13,957,779	14,033,584
	160,238,276	168,457,001

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		<b>June 30, 2006 Rupees</b>	<b>June 30, 2005 Rupees</b>
<b>10 LOANS AND ADVANCES</b>			
Current portion of long term loans to;	5		
- related parties		600,000	600,000
- other employees		2,020,561	3,830,744
Advances to suppliers - unsecured but considered good		13,605,933	11,169,667
Letters of credit		485,054	50,211,981
Advance income tax	10.1	676,150	666,211
Others		603,229	716,447
		<u>17,990,927</u>	<u>67,195,050</u>
<b>10.1</b>	The amount of advance income tax has been arrived at after netting off the provision for taxation amounting to Rs. 43,779,786 (June 30, 2005: Rs. 59,282,884)		
<b>11 TRADE DEPOSITS</b>	<b>Note</b>	<b>June 30, 2006 Rupees</b>	<b>June 30, 2005 Rupees</b>
Deposit against infrastructure fee payable	11.1	4,750,000	4,350,000
Trade deposits		64,165	601,525
		<u>4,814,165</u>	<u>4,951,525</u>
<b>11.1</b>	Effective mark up rate on these deposits range from 1.57% to 3% (June 30, 2005: 1.57% to 3%) per annum.		
<b>12 OTHER RECEIVABLES</b>			
Interest receivable from related party-considered doubtful	12.1	6,215,392	6,215,392
Other receivables		269,852	1,545,177
Claim receivable		-	2,712,806
		<u>6,485,244</u>	<u>10,473,375</u>
Less: Provision for interest receivable from related party		6,215,392	-
		<u>269,852</u>	<u>10,473,375</u>
<b>12.1</b>	This represents interest receivable from related party, M/S. Synergy Synthetic Limited. The maximum aggregate amount outstanding at the end of any month during the year was Rs. 6,215,392 (June 30, 2005: Rs.6,215,392). The project of above said Company has been abandoned and sale of its land is under process. The Company's interest will be recovered out of proceeds from sale of land.		
<b>13 TAXATION</b>			
Sales tax refundable	13.1	20,712,519	48,668,008
Octroi refundable		125,681	125,681
Income tax refundable		664,369	6,225,000
		<u>21,502,569</u>	<u>55,018,689</u>
<b>13.1</b>	These represents accumulated difference of input tax and sales tax payable.		
<b>14 BANK BALANCES</b>			
Balances with banks on:			
Current accounts	14.1	26,202,612	13,765,484
Deposit accounts	14.2	3,287,271	2,082,126
		<u>29,489,883</u>	<u>15,847,610</u>
<b>14.1</b>	This includes Rs. 89,671 (June 30, 2005 : 193,882) in foreign currency accounts.		
<b>14.2</b>	Effective mark up rate in respect of these balances ranges from 1.5% to 3% (June 30, 2005: 0.75% to 1.5%) per annum.		

NOTES TO THE FINANCIAL STATEMENTS  
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15 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

No. of Shares				
June 30 2006	June 30 2005	Ordinary shares of Rs. 10 each		
6,300,000	6,300,000	- fully paid in cash	63,000,000	63,000,000
3,700,000	3,700,000	- issued as bonus shares	37,000,000	37,000,000
<u>10,000,000</u>	<u>10,000,000</u>		<u>100,000,000</u>	<u>100,000,000</u>

16 LONG TERM FINANCING

From financial institutions - secured

Description	Note	Interest	Security	Repayment	June 30 2006 Rupees	June 30 2005 Rupees
Term finance I		Six months treasury bill cut off rate plus 2 percent (June 30, 2005: Six months treasury bills cut off rate plus 2 percent)	First mortgage charge over entire present and future immovable property, hypothecation of plant and machinery of the Company amounting to Rs. 407 million and personal guarantees of directors of the Company.	The loan has been repaid during the year.	-	30,000,000
Term finance II		Same as for term finance I	Covered under securities for term finance I.	The loan is repayable in sixteen equal quarterly installments, commencing from September 04, 2003.	11,250,000	22,500,000
Term finance III		Three months KIBOR plus one percent (June 30, 2005: Three months KIBOR plus one percent)	Covered under securities for term finance I.	The loan is repayable in eighteen equal quarterly installments commencing from June 01, 2005.	72,222,220	94,444,444
Term finance IV		Six months treasury bill cut off rate plus 2.5 percent (June 30, 2005: Six months treasury bill cut off rate plus 2.5 percent)	First pari passu charge over plant and machinery of Nooriabad Spinning Unit to the extend of Rs. 419 million and first pari passu charge over plant and machinery of Weaving Unit (Sheikhupura) to the extent of Rs. 236 million.	The loan is repayable in eleven equal semi annual installments, commencing from June 30, 2004.	109,090,911	145,454,545
Term finance V		Same as for term finance IV	Covered under securities for term finance IV.	The loan is repayable in eleven equal semi annual installments commencing from July 16, 2003.	68,181,817	95,454,545
Term finance VI		Same as for term finance IV	Covered under securities for term finance IV.	The loan is repayable in eleven equal semi annual installments commencing from August 11, 2004.	82,727,272	106,363,636
Term finance VII	16.1	Six months treasury bill rate plus 1.5 %, swapped by 9.77% (June 30, 2005: Six months treasury bill rate plus 1.5 %, swapped by 9.77% ) per annum.	Equitable mortgage of property by way of Memorandum of Deposit of Title for bearing No. A/150 i.e. spinning unit at Nooriabad, Sindh along with present and future construction, fixture, fittings therein machinery installed thereon to Rs. 707 million and personal guarantee of directors of the Company.	The loan is repayable in twenty equal quarterly installments, commencing from March 29, 2005.	140,000,000	180,000,000
Term finance VIII	16.2	Six months KIBOR plus 1% per annum swapped by fixed rate of 11.35% per annum. (June 30, 2005: Six months KIBOR plus 1% per annum per annum).	First equitable mortgage charge over present and future plant and machinery and immovable assets of the Company amounting to Rs. 707 million and personal guarantee of directors of the Company.	The loan is repayable in seven equal semi annual installments, commencing from August 26, 2006.	100,000,000	100,000,000
Term finance IX	16.3	Same as for term finance IV	Covered under securities for term finance VII.	The loan is repayable in seven equal semi annual installments, commencing from September 26, 2006.	100,000,000	100,000,000
Term finance X	16.4	Same as for term finance IV	Covered under securities for term finance VII.	The loan is repayable in seven equal semi annual installments, commencing from October 22, 2006.	100,000,000	100,000,000
Term finance XI		Six months KIBOR plus 1.25 percent per annum	Promissory note of Rs. 196 million, hypothecation charge over stocks/machinery for Rs 200 million and personal guarantee of directors of the Company.	The loan is repayable in lump sum in September 30, 2007.	140,000,000	-
Term finance XII		Three months average KIBOR plus 2% with a floor of 10% per annum.	First pari passu charge with 25% margin over fixed assets for Rs. 387 million registered with SECP and personal guarantee of directors of the Company.	The loan is repayable in ten equal semi annual installments, commencing from December 23, 2007.	290,000,000	-
					<u>1,213,472,220</u>	<u>974,217,170</u>
Less: Current portion					<u>246,459,236</u>	<u>233,602,094</u>
					<u>967,012,984</u>	<u>740,615,076</u>

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

During the year the Company has entered into interest rate swap arrangements with various financial institutions. Terms of the swap arrangements are as follows:

	Note	16.1	16.2	16.3	16.4
Notional amount		Rs. 190 million	Rs. 100 million	Rs. 100 million	Rs. 100 million
Maturity		December 29, 2009	February 27, 2009	March 20, 2009	March 16, 2011
Mark up to be paid		9.77% per annum	11.35% per annum	11.35% per annum	11.35% per annum
Mark up (to be received)		Six months T-Bill cut off rate plus 1.5% per annum	Six months KIBOR plus 1% per annum	Six months KIBOR plus 1% per annum	Six months KIBOR plus 1% per annum
Settlement frequency		Quarterly	Half yearly	Half yearly	Half yearly

**17 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 guarantees. The Company has provided guarantees amounting to Rs. 4.75 (June 30, 2005: 4.35) million in this respect

18 DEFERRED LIABILITIES	Note	June 30, 2006 Rupees	June 30, 2005 Rupees
Employee benefits	18.1	<u>26,085,350</u>	<u>24,493,805</u>

**18.1** 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. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income.

**18.2 Movement in liability recognized in the balance sheet**

Balance at beginning of year	24,493,805	20,437,595
Charged to profit and loss account	7,950,299	5,926,400
Benefits paid during the year	<u>(6,358,754)</u>	<u>(1,870,190)</u>
Balance at end of year	<u>26,085,350</u>	<u>24,493,805</u>

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

	Year ended June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
Current service cost	4,799,200	4,472,520
Interest cost	1,757,572	1,468,429
Actuarial loss / (gain) recognized during the year	<u>1,393,527</u>	<u>(14,549)</u>
Net amount chargeable to profit and loss account	<u>7,950,299</u>	<u>5,926,400</u>

**18.2.2** 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.

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

19 TRADE AND OTHER PAYABLES	June 30 2006 Rupees	June 30 2005 Rupees
Creditors	95,658,162	105,571,713
Accrued liabilities	42,869,186	38,697,194
Payable to contractors	3,922,169	1,333,948
Workers' profit participation fund	19.1 10,677,793	9,605,592
Unclaimed dividend	1,923,235	1,901,003
Others	3,946,916	9,733,153
	158,997,461	166,842,603

19.1 Workers' profit participation fund

Balance at beginning of year	9,605,592	8,458,545
Interest on funds utilized in the Company's business	19.2 854,677	401,765
	10,460,269	8,860,310
Paid to the fund during the year	5,545,135	6,737,332
	4,915,134	2,122,978
Allocation / expense for the year	5,762,659	7,482,614
	10,677,793	9,605,592

19.2 Interest on workers' profit participation fund has been provided @ 11.5% (June 30, 2005: 11.5%) per annum.

20 MARK-UP ACCRUED ON LOANS	June 30, 2006 Rupees	June 30, 2005 Rupees
Mark-up accrued on :		
- long-term financing	20,459,893	13,616,912
- short-term borrowings	10,253,875	9,870,084
- arrangement interest rate swapping	719,304	2,723
	31,433,072	23,489,719

21 SHORT TERM BORROWINGS

From banking companies-secured

Short term money market loan	360,000,000	525,000,000
Running finance	-	352,089,808
	360,000,000	877,089,808

21.1 The aggregate unavailed short-term borrowing facilities amounts Rs. 720 (June 30, 2005: Rs. 502.911) million.

21.2 These facilities have been obtained from various commercial banks and carry mark up at the rate ranging from 7.04% to 11.02% (June 30, 2005 : 2.34% to 9.25%) per annum, payable quarterly. These facilities expire on various dates and are renewable. These are secured against first pari passu charge over stocks and book debts amounting to Rs. 734 million, ranking charge over stocks and book debts amounting to Rs. 3,016 million, equitable mortgage of the immovable factory properties and personal guarantees of directors of the Company.

22 CONTINGENCIES AND COMMITMENTS

*Contingencies*

22.1 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. 50,000 per annum were payable w.e.f. year 2000. The Company filed an appeal with Honourable Sindh High Court ("SHC") against the levy of such tax. The SHC issued its judgment in favour of the 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**

- 22.2** In normal course of business, the Company has issued indemnity bonds amounting to Rs. 52.71 (June 30, 2005 : 60.23) million in favour of collectors of custom and sales tax department in lieu of custom and sales tax levies against various statutory notification and the indemnity bond furnished by the Company are likely to be released after fulfillment of the terms of related SRO's.
- 22.3** Bank guarantee issued to Sui Northern Gas Company Limited for Rs. 30.941 and to Sui Southern Gas Company Limited for Rs. 23.736 Million on behalf of the company.
- 22.4** An amount of Rs. 4.175 million (June 30, 2005: 4.175 million) is payable by the Company in respect of excise duty payable on bank loans. The Company has challenged the levy of such duty in 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 SC against said order of SHC, decision on which is pending.

**Commitments**

Letters of credit for:

- import of stores, spare parts and loose tools	-	919,653
- import of plant and machinery	65,010,831	15,387,347
Civil works	6,000,000	30,800,000
	<u>71,010,831</u>	<u>47,107,000</u>

	Year ended June 30, 2006			TOTAL	Nine months ended June 30, 2005
	LOCAL	EXPORT			
		DIRECT	INDIRECT		
	RUPEES				
<b>23 SALES - NET</b>					
Gross sales:					
Yarn	145,351,939	1,112,626,841	1,224,000	1,259,202,780	661,799,571
Fabric	354,597,773	468,104,390	1,085,584,721	1,908,286,884	1,762,863,737
Waste	60,186,969	-	-	60,186,969	33,146,067
	560,136,681	1,580,731,231	1,086,808,721	3,227,676,633	2,457,809,375
Add: Export rebate	-	8,845,429	-	8,845,429	10,400,068
	560,136,681	1,589,576,660	1,086,808,721	3,236,522,062	2,468,209,443
Less : Sales tax	-	-	-	-	103,348,897
Commission	16,970,679	19,674,730	-	36,645,409	25,780,104
	<u>543,166,002</u>	<u>1,569,901,930</u>	<u>1,086,808,721</u>	<u>3,199,876,653</u>	<u>2,339,080,442</u>

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

<b>24 COST OF SALES</b>	<b>Note</b>	<b>Year ended June 30, 2006 Rupees</b>	<b>Nine Months ended June 30, 2005 Rupees</b>
Raw material consumed	<b>24.1</b>	2,189,998,745	1,486,229,408
Packing material consumed		32,417,693	20,736,915
Yarn and fabric processing charges		5,967,276	7,562,400
Salaries, wages and benefits	<b>24.2</b>	122,936,968	86,771,563
Stores and spare parts consumed		82,755,118	54,334,794
Fuel, power and water		225,499,612	135,231,686
Insurance		5,597,609	5,142,712
Repair and maintenance		5,650,119	3,555,034
Depreciation	<b>3.1</b>	178,042,733	97,843,066
Other		8,390,924	4,912,859
		<u>2,857,256,797</u>	<u>1,902,320,437</u>
Work in process			
Opening stock		39,840,577	32,449,751
Closing stock		(48,498,636)	(39,840,577)
		<u>(8,658,059)</u>	<u>(7,390,826)</u>
Cost of goods manufactured		2,848,598,738	1,894,929,611
Finished stocks			
Opening stock		106,200,214	157,692,191
Finished goods purchased for export		22,453,728	85,274,586
Yarn purchased		46,276,334	4,134,000
Closing stock		(216,961,230)	(106,200,214)
		<u>(42,030,954)</u>	<u>140,900,563</u>
		<u>2,806,567,784</u>	<u>2,035,830,174</u>
<b>24.1 Raw material consumed</b>			
Opening stock		521,521,219	123,963,369
Purchases		2,155,535,015	1,905,837,353
		<u>2,677,056,234</u>	<u>2,029,800,722</u>
Raw material sold		(164,430,497)	(22,050,095)
Closing stock		(322,626,992)	(521,521,219)
		<u>2,189,998,745</u>	<u>1,486,229,408</u>

**24.2** Salaries, wages and benefits includes employees retirement benefits amounting to Rs. 6,328,875 ( June 30, 2005: Rs. 4,471,085).

<b>25 OTHER OPERATING INCOME</b>	<b>Year ended June 30, 2006 Rupees</b>	<b>Nine Months ended June 30, 2005 Rupees</b>
<b>Income from financial assets</b>		
Interest on bank deposits	29,165	-
<b>Income from assets other than financial assets</b>		
Gain on disposal of property, plant and equipment	973,596	1,423,058
Doubtful debts recovered	75,805	80,000
	<u>1,078,566</u>	<u>1,503,058</u>

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

26 DISTRIBUTION COST	Note	Year ended June 30, 2006 Rupees	Nine Months ended June 30, 2005 Rupees
<b>Export</b>			
Steamer freight		25,307,287	24,424,270
Trailer freight		7,138,200	3,022,043
Clearing and forwarding		4,753,999	1,597,501
Export development surcharge		6,018,228	3,644,022
Sales promotion expenses		1,441,166	6,775,785
Adhesive stamps		3,604,960	2,173,088
Testing charges		84,418	165,570
Claim settlement account		6,005,000	-
Other export expenses		3,048,052	5,197,424
		57,401,310	46,999,703
<b>Local</b>			
Freight on local sales		1,315,570	3,217,970
Sales office expenses		303,505	228,823
Letters of credit discounting charges		349,534	40,273
Advertisement expenses		43,680	122,550
Quality claim		50,092	345,944
		2,062,381	3,955,560
		59,463,691	50,955,263
<b>27 ADMINISTRATIVE EXPENSES</b>			
Directors' remuneration		2,880,000	1,651,500
Staff salaries and benefits	27.1	13,590,335	9,997,227
Traveling, conveyance and entertainment		1,516,685	1,941,962
Printing and stationery		391,021	392,015
Communication expenses		1,114,389	675,041
Vehicles running and maintenance		1,330,402	784,202
Legal and professional		350,400	207,600
Auditors' remuneration	27.2	310,000	190,000
Fee and subscription		441,752	140,895
Repair and maintenance		70,240	84,673
Office expenses		379,842	617,035
Depreciation	3.1	2,352,510	1,846,237
Provision for doubtful debts		6,215,392	3,037,344
Others		300,802	913,919
		31,243,770	22,479,650
<b>27.1</b> Staff salaries and benefits includes employee retirement benefits amounting to Rs. 1,621,424 (June 30, 2005: Rs. 1,455,315) .			
<b>27.2 Auditors' remuneration</b>			
Annual statutory audit		150,000	125,000
Half yearly review		80,000	40,000
Code of corporate governance		45,000	25,000
Out of pocket expenses		35,000	-
		310,000	190,000
<b>28 OTHER OPERATING EXPENSES</b>			
Workers' profit participation fund		5,762,659	7,482,614

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

<b>29 FINANCE COST</b>	<b>Note</b>	<b>Year ended June 30, 2006 Rupees</b>	<b>Nine Months ended June 30, 2005 Rupees</b>
Mark-up on:			
- long term financing	29.1	101,140,783	35,741,543
- short term borrowings		76,309,551	38,182,931
- liabilities against assets subject to finance lease		-	166,269
- workers' profit participation fund		854,677	401,765
Bank charges and commission		10,976,466	8,467,250
		<u>189,281,477</u>	<u>82,959,758</u>

**29.1** It includes loss on interest rate swapping amounting to Rs.3,580,708 (June 30, 2005: 1,237,263). Please also refer note 16).

**30 PROVISION FOR TAXATION**

Current			
- for the year		43,779,786	26,280,130
- for prior years		18,121	59,795
		<u>43,797,907</u>	<u>26,339,925</u>

**30.1** The provision for taxation has been made in these financial statements under final tax regime due to application of sections 154 and 169 of the 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.

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

The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements as provision for taxation has been calculated under final tax regime of the Income Tax Ordinance, 2001.

**30.3 Deferred**

No provision for deferred tax has been made in these accounts based on the Technical Release TR-27 issued by the Institute of Chartered Accountants of Pakistan which prescribes that deferred tax accounting does not apply to those companies whose entire sales are covered under final tax regime of the Income Tax Ordinance, 2001.

**31 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 (after tax profit for the year)	<u>88,839,070</u>	<u>130,717,844</u>
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**Number of shares**

Weighted average number of ordinary shares	<u>10,000,000</u>	<u>10,000,000</u>
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Basic earnings per share have been computed by dividing earnings as stated above with weighted average number of ordinary shares.

<b>Basic earnings per share</b>	<u><b>8.88</b></u>	<u><b>13.07</b></u>
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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.

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

**32 DIVIDEND**

In respect of current period, the board of directors has proposed to pay cash dividend of Rs. 7.5 Million @ Rs. 0.75 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 period of payment.

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

	CHIEF EXECUTIVE OFFICER		DIRECTORS	
	Year ended June 30,2006	Nine Months ended June 30,2005	Year ended June 30,2006	Nine Months ended June 30,2005
	← R U P E E S →			
Remuneration	662,064	379,653	1,324,128	759,306
Allowances	297,936	170,847	595,872	341,694
	<u>960,000</u>	<u>550,500</u>	<u>1,920,000</u>	<u>1,101,000</u>
Number of persons	1	1	2	2

**33.1** 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. 633,116 (June 30, 2005: Rs.202,220).

**34 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

**34.1 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.

	June 30, 2006			June 30, 2005		
	Interest / Mark-up bearing	Non Interest / Mark-up bearing	Total	Interest / Mark-up bearing	Non Interest / Mark-up bearing	Total
	R U P E E S					
<b>Financial assets</b>						
Maturity up to one year						
Trade debts	-	160,238,276	160,238,276	-	168,457,001	168,457,001
Loans and advances	-	3,223,790	3,223,790	-	5,147,191	5,147,191
Trade deposits	4,750,000	64,165	4,814,165	4,350,000	601,525	4,951,525
Other receivables	-	269,852	269,852	-	4,257,983	4,257,983
Bank balances	3,287,271	26,202,612	29,489,883	2,082,126	13,765,484	15,847,610
Maturity after one year						
Long-term loans	-	5,069,144	5,069,144	-	4,461,748	4,461,748
Long-term deposits	-	2,695,725	2,695,725	-	1,056,815	1,056,815
	<u>8,037,271</u>	<u>197,763,564</u>	<u>205,800,835</u>	<u>6,432,126</u>	<u>197,747,747</u>	<u>204,179,873</u>
Maturity up to one year						
Long-term financing	246,459,236	-	246,459,236	233,602,094	-	233,602,094
Trade and other payables	10,677,793	105,450,482	116,128,275	9,605,592	-	9,605,592
Mark-up accrued on loans	-	31,433,072	31,433,072	-	23,489,719	23,489,719
Short-term borrowings	360,000,000	-	360,000,000	877,089,808	-	877,089,808
Maturity after one year						
Long term financing	<u>967,012,984</u>	<u>-</u>	<u>967,012,984</u>	<u>740,615,076</u>	<u>-</u>	<u>740,615,076</u>
	<u>1,584,150,013</u>	<u>136,883,554</u>	<u>1,721,033,567</u>	<u>1,860,912,570</u>	<u>23,489,719</u>	<u>1,884,402,289</u>
<b>On balance sheet gap</b>	<u>(1,576,112,742)</u>	<u>60,880,010</u>	<u>(1,515,232,732)</u>	<u>(1,854,480,444)</u>	<u>174,258,028</u>	<u>(1,680,222,416)</u>
<b>Contingencies and commitments</b>						
Guarantees	-	41,800,000	41,800,000	-	29,936,000	29,936,000
Letters of credit						
- import of stores, spares and loose tools	-	-	-	-	919,653	919,653
- import of plant and machinery	-	65,010,831	65,010,831	-	15,387,347	15,387,347
Civil work	-	6,000,000	6,000,000	-	30,800,000	30,800,000
	<u>-</u>	<u>112,810,831</u>	<u>112,810,831</u>	<u>-</u>	<u>77,043,000</u>	<u>77,043,000</u>

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

**34.2 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. 205,800,835 (June 30, 2005: Rs. 204,179,873), unsecured long term loans to employees, local trade debts, advances to suppliers, and other receivables amounting in aggregate to Rs. 156,024,054 (June 30, 2005: Rs.161,052,123) are subject to credit risk. The Company manages its credit risk by; limiting significant exposure to any individual customers and obtaining advance against sales.

**34.3 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.

**34.4 Foreign exchange risk management**

Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As at June 30, 2006, the total foreign currency risk exposure was Rs 4,735,457 (June 30, 2005: Rs. 15,730,783) in respect of foreign trade debts.

**34.5 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.

**35 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 follows:

Nature of relationship	Nature of transactions	Year ended	Nine Months ended
		June 30, 2006 Rupees	June 30, 2005 Rupees
Associated undertaking	Sales of raw material	131,753,340	36,944,707
	Sales of fabric	387,726,395	18,706,927
	Sales of stores, spare parts and loose tools	613,093	110,942
	Sales of property, plant and equipment	20,427,406	22,924,500
	Purchase of raw material	318,072,020	169,536,159
	Purchase of fabrics	5,954,448	82,241,959
	Purchase of property, plant and equipment	-	2,250,000
	Services received	1,910,500	2,108,400
	Dividend received	891,870	891,870
	Electricity purchased	144,133,479	93,852,015
Compensation of key management personnel	Remuneration and other benefits	522,000	414,000
	Post employment benefits	300,000	270,000

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

	<b>Year ended June 30, 2006</b>	<b>Nine Months ended June 30, 2005</b>
<b>36 PLANT CAPACITY AND ACTUAL PRODUCTION</b>		
<b>36.1 Spinning unit</b>		
Number of spindles installed	30,720	30,720
Number of spindles worked (Average)	30,720	24,000
Number of working days	365	273
Number of shifts per day	3	3
 Installed capacity in kilograms, after conversion into 20/s count (based on actual number of working days)	 11,434,172	 5,866,157
 Actual production of yarn in kilograms, after conversion into 20/s count (based on actual number of working days)	 11,419,194	 6,792,318
 <b>36.2 Weaving unit</b>		
Number of looms installed	223	223
Number of looms worked	223	223
Number of working days	365	273
Number of shifts per day	3	3
 Installed capacity in meters, after conversion into 50 picks (based on number of actual working days)	 38,406,182	 31,233,657
 Actual production of fabric in meters, after conversion into 50 picks (based on number of actual working days)	 48,423,203	 36,986,910

**36.3** 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.

**36.4** The difference between installed capacity and actual production is in normal course of business.

**36.5** The short fall in spinning unit is due to frequent change of counts according to the demand of the count.

**37 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.

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

**38 RE-ARRANGEMENT AND RE-CLASSIFICATION**

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:

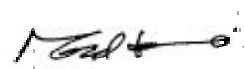
<b>From</b>	<b>To</b>	<b>Reason</b>	<b>Amount (Rupees)</b>
<b>Balance Sheet</b>			
Provision for taxation	Loans and advances (Advance tax)	For better presentation	59,282,884
Advances to suppliers	Capital work in progress	For better presentation	6,127,639
Other receivables ( sales tax receivables)	Taxation	For better presentation	48,668,008
Deferred liability (Infrastructure fee)	Intrastate fee payable	For better presentation	4,077,056
Capital work in progress	Property, plant and equipment	For better presentation	10,951,377
<b>Profit and loss account</b>			
Finance cost (Loss on interest rate swap)	Finance cost (long-term financing)	For better presentation	1,237,263
<b>Cash flow statement</b>			
Provision for doubtful debts and other receivables	Decrease/(increase) in trade debts	For better presentation	6,215,392
Infrastructure fee	Purchase of property, plant and equipment	For better presentation	4,077,056

**39 GENERAL**

The figures have been rounded off to the nearest Rupee.



**Mohammad Sharif**  
Chief Executive / Director



**Mohammad Salim**  
Director

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

NUMBER OF SHAREHOLDERS	SHARE HOLDING FROM TO	TOTAL SHARES HELD
132	000001 - 000100	13,000
457	000101 - 000500	217,900
41	000501 - 001000	40,000
39	001001 - 005000	110,800
12	005001 - 010000	86,200
2	010001 - 015000	24,200
2	025001 - 030000	57,692
1	030001 - 035000	32,692
2	045001 - 050000	98,077
1	080001 - 085000	83,900
3	095001 - 100000	294,923
1	105001 - 110000	109,500
1	125001 - 130000	129,231
1	135001 - 140000	136,919
1	180000 - 200000	184,200
1	195001 - 200000	199,055
1	200001 - 205000	200,380
1	210001 - 215000	211,500
1	220001 - 225000	222,700
1	230001 - 235000	235,000
1	235001 - 240000	237,577
2	270001 - 275000	546,500
1	280001 - 285000	280,500
1	310001 - 315000	312,688
2	330001 - 335000	669,910
1	395001 - 400000	395,216
1	450001 - 455000	451,000
1	460001 - 465000	460,923
1	530001 - 535000	533,960
1	660001 - 665000	661,500
2	735001 - 740000	1,479,457
1	1280001 - 1285000	1,282,900
<hr/> <hr/>		<hr/> <hr/>
716		10,000,000

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

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	SHARE HELD	PERCENTAGE %
1. INDIVIDUALS	703	8,393,300	83.93
2. INVESTMENTS COMPANIES	-	-	-
3. INSURANCE COMPANIES	1	222,700	2.23
4. JOINT STOCK COMPANIES	5	1,368,300	13.68
5. FINANCIAL INSTITUTION	5	12,600	0.13
6. MODARABA COMPANIES	1	2,600	0.02
7. FOREIGN INVESTORS	-	-	-
8. CO-OPERATIVE SOCIETIES	-	-	-
9. CHARITABLE TRUSTS	-	-	-
10. OTHERS	1	500	0.01
<b>TOTAL</b>	<b>716</b>	<b>10,000,000</b>	<b>100.00</b>

The above two statements include 210 Shareholders holding 2,090,100 Shares through the Central Depository Company of Pakistan Limited (CDC).