



Notes to the Accounts for the year ended June 30, 2008

1. STATUS AND NATURE OF BUSINESS

Fateh Textile Mills Limited was incorporated in Pakistan as a private limited company and converted into public limited company in 1960 and subsequently listed on Karachi Stock Exchange. The company is engaged in the Business of manufacturing, bleaching, dyeing, printing, buying, selling and dealing in textile, yarn, cloth and fabrics made from raw cotton and polyester fiber.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention, except for certain fixed assets which include revaluation amount and investments “available for sale” which are stated at fair value.

The investments in shares of ABL are, however, stated at cost.

2.2 Statement of Compliance

These accounts have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board as are notified under the provision of the Companies Ordinance, 1984. Wherever the requirements of Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 Fixed Assets and Depreciation

These are stated at cost less accumulated depreciation and impairment loss except land, factory and colony building and plant and machinery in which element of revaluation is included. Depreciation is calculated on written down value of assets. Full year’s depreciation is charged on additions, while no depreciation is charged on deletions during the year. Charge for depreciation in profit and loss account is on the basis of historical cost. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised. Gain or loss on disposal of operating fixed assets is recognised in current year’s income statement.

2.4 Stores, Spares and Loose tools

These are valued at lower of cost and net realizable value using moving average cost method except items in transit which are stated at cost accumulated upto the date of balance sheet.

2.5 Stock-in-Trade

These are valued at lower of cost and net realisable value. Cost is calculated on the following basis:

Raw Materials	At weighted average cost
Material-in-Transit	At cost accumulated upto the date of balance sheet
Goods in process	At manufacturing cost
Finished goods	At average manufacturing cost

Net realisable value signifies the estimated selling price prevailing in the market less estimated selling expenses incidental to sales and average manufacturing cost includes direct overheads.

2.6 Trade Debts

Trade receivables are recognized and carried at original invoice amount.

Bad debts are adjusted against provision for doubtful debts or written off against the profit of the company during the year in which these are deemed to be irrecoverable. Provision is made for debts which are considered doubtful of recovery.

2.7 Long Term Investments

2.7.1 All investments are initially recognised at cost, being fair value of the consideration given and including acquisition charges associated with investments and classified as either “held for trading” or “available for sale”.

2.7.2 Investment “held for trading” are those which are either acquired for generating a profit for short-term fluctuation in prices or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. Gains and losses on investments held for trading are recognised in income statement.

2.7.3 Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or change in interest rate are classified as “available for sale”. These are classified as non current unless management has an intention of holding the investment for not more than 12 months from the balance sheet date in which case they are included as current assets.

Gains and losses on investments “available for sale” are recognized as separate component of equity until investments are disposed of or until the investment is determined to be impaired, at which time the accumulated gains / loss previously reported in equity is included in income statement.

2.7.4 All purchases and sales of investments are recognized on the trade date, which is the date that the company commits to purchase or sale the investments.

2.7.5 Fair value of publicly traded investment is based on quoted market prices at balance sheet date.

2.8 Staff Retirement Benefits

The Company operates unfunded gratuity scheme for all its entitle workmen. In terms of the scheme the workers are entitled for encashment of this entitlement at their option. The provision is adjusted triennially as per actuarial valuation required under IAS - 19. During the interim period provision is updated on the old basis. The most recent actuarial valuation was carried out in September 2007 using projected unit credit method. Which have been given effect in these accounts.



2.9 **Taxation**

Charge for current taxation is based on taxable income at current tax rates after considering tax credits and tax rebates if any, available to the company.

Provision for deferred taxation is made on all significant temporary timing differences which are likely to reverse in future, using the liability method.

2.10 **Assets Subject to Finance Lease**

These are recognised as assets and liabilities at the inception of the lease equal to the fair value of the leased assets or, if lower, at the present value of minimum lease payments, using the discount factor as interest rate which is implicit in the lease. The financial charges are allocated to the related accounting periods in a manner so as to provide a constant periodic rate of charge. These leased assets are depreciated in accordance with the depreciation policy, which is consistent with depreciable assets, which are owned.

2.11 **Foreign Currency Transactions**

Transaction in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities in foreign currencies are translated into rupees at the rate of exchange ruling on the balance sheet date. Exchange gains and losses are included in income statement currently.

2.12 **Trade and other Payables**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.

2.13 **Borrowing Cost**

Borrowing cost that are directly attributable to the acquisition, construction or production of a qualifying assets are capitalized as a part of the cost of that asset. All other borrowing costs are charged to income.

2.14 **Revenue Recognition**

Sales are recorded on dispatch of goods.

Dividend income on equity investment is recognised when the company's right to receive the payment has been established. Return on deposits are recognised on accrual basis.

2.15 **Research and Development Support**

During the year manufacturing cum exporting units in respect of certain type of fabrics have been allowed Research and Development Support by the Government at specified rates and with specified conditions.

The income is accounted for on accrual basis and is grouped under "other income" in the financial statements.

2.16 **Sales**

Sales include export rebates, which are accounted for on accrual basis.

- 2.17 Offsetting 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 the 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.
- 2.18 Provisions**
A provision is recognized when the company has a present obligation (legal or constructive) as a result of a present or past event and it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.
- 2.19 Impairment of assets**
The company assesses at each balance sheet date whether there is any indication that an asset has been impaired. If any such indication exists, the company estimates the recoverable amount of the asset. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and is recognized as an expense in the income statement.
- 2.20 Cash and its Equivalents**
Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement it comprises cash in hand and demand deposits, short term highly liquid investment that are readily convertible to known amount of cash and which are not subject of significant change in value.
- 2.21 Related Party Transactions**
Transactions between the company and with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method which sets the price by reference to comparable goods sold in an economically comparable market to a buyer unrelated to seller.
- 2.22 Research and Development Cost**
Research and development cost is charged to income as and when incurred.
- 2.23 Dividend and Appropriation to Reserves**
Dividend is recognized in the financial statements in the period which this is approved.
- 2.24 Financial Assets and Liabilities**
All financial assets and liabilities are initially recognised at cost which is fair value for the consideration received or given. These financial assets and liabilities are subsequently measured at fair value.
- 2.25 Capital Work in Progress**
This is stated at cost which includes all specific expenses incurred for installation / erection and are transferred to fixed assets when ready for intended use.



Fateh

	Rupees 2008	Rupees 2007
3. ISSUED, SUBSCRIBED & PAID-UP SHARE CAPITAL		
1,250,000 (2007: 1,250,000) Fully paid ordinary shares of Rs. 10 /- each issued for cash	<u>12,500,000</u>	<u>12,500,000</u>
4. GENERAL RESERVE		
Opening Balance	1,481,000,000	1,441,000,000
Transfer during the year	<u>0</u>	<u>40,000,000</u>
	<u>1,481,000,000</u>	<u>1,481,000,000</u>
5. SURPLUS ON REVALUATION OF FIXED ASSETS		
Revaluation of Land, Factory & Colony Building and Plant & Machinery was carried out by Sidat Hyder & Co. Chartered Accountants under asset valuation method duly assisted by an independent valuer viz. M/s. Iqbal A. Nanjee & Co. Surveyors and valuation consultants as on September 30, 1999 resulting in to creation of surplus of Rs. 717.856 million. Subsequently it was carried out by M/s. Iqbal A. Nanjee & Co. Surveyors and valuation consultants as on June 21, 2005 resulting into creation of a surplus Rs. 1,139.013 million. Amortization of both revaluations are given in Note no. 15.2.		
The movement in this account is as under:-		
Opening balance as at July 1	1,272,106,756	1,346,003,487
Amortization of revaluation surplus representing Incremental Depreciation for current year transferred to accumulated depreciation - (5.1)	<u>(66,507,057)</u>	<u>(73,896,731)</u>
	<u>1,205,599,699</u>	<u>1,272,106,756</u>
5.1	In accordance with the amendment in Section 235 of Companies Ordinance, 1984 inserted by Companies (Amendment) Ordinance 2002, the balance of revaluation surplus representing incremental depreciation has been amortized by the incremental depreciation which has been transferred to Accumulated Depreciation.	
6. LOANS SUBORDINATE TO EQUITY (UNSECURED)	<u>51,000,000</u>	<u>51,000,000</u>
These have been received from directors and bear no interest.		
7. LONG TERM LOANS		
Financial Institutions		
Demand Finance - Secured		
Muslim Commercial Bank Limited (7.1)	5,004,000	5,004,000
Allied Bank of Pakistan Limited (7.2)	1,235,000,000	1,235,000,000
National Bank of Pakistan (7.3)	<u>469,558,692</u>	<u>469,558,692</u>
	1,709,562,692	1,709,562,692
Less: Current Maturity (Note # 13)	<u>(318,776,000)</u>	<u>(161,890,000)</u>
	<u>1,390,786,692</u>	<u>1,547,672,692</u>

7.1 The total loan liability was Rs. 90.504 million in terms of the compromise agreement in suit # B-75 filed in 2001 and decreed by Honourable High Court of Sindh by an order passed on 25th September, 2002 against which Rs. 85.500 million were paid as down payment and in instalments. Leaving the balance of Rs. 5.004 million payable as on 30-06-2006, which is payable in monthly instalment of Rs. 1.500 million each but remains unpaid.

In case of default in payment of any two instalments as per repayment schedule the entire loan liability with upto date mark up at the prevailing rate will become payable.

This is secured by hypothecation of raw material, cloth and garments stored at mills premises or else where in Pakistan and charge over book debts as well as fixed assets, as additional security .

7.2 On 5th October 2005, Company and Allied Bank Limited agreed to settle this long term loan liability at a sum of Rs. 1300 million out of which company paid a sum of Rs.65 million as down payment leaving the balance of Rs. 1235 million payable within the period of five years. The first four quarterly payment were of Rs. 50 million commencing from 15th March, 2006 and the remaining balance of Rs. 1035 million were to be paid in 16 equal quarterly instalments with mark up of KIBOR plus 1%.

The bank defaulted in fulfilling the requirements as enunciated in para 5 of the above said agreement and therefore the company has filed a suit against the bank for specific performance in Sindh High Court which is pending. For the same reason markup on the loan is not being provided.

This is secured by:

- (a) An equitable mortgage which ranked (pari passu) with National Bank of Pakistan Plot of land bearing No. A/47/A, S.I.T.E, Hyderabad together with all factory buildings, workshop, plant & machinery and hypothecation of equipments, stores etc. of spinning unit # 2.
- (b) Second charge by way of mortgage of plot No. A-4, S.I.T.E, Hyderabad, together with buildings, plant & machinery and equipments, and hypothecation of stock of raw materials, goods in process, finished goods, stores, spares & packing materials.
- (c) A floating charge on the current assets of the company to rank as third, the first charge being in favour of National Bank of Pakistan and second charge in favour of Askari Commercial Bank Limited.
- (d) A charge by way of hypothecation of present and future book debts, receivables, claims, investments, rights and assets, stocks and raw materials.

7.3 As a result of compromise agreement dated April 2003 with NBP, the principal amount settled was Rs. 1256.588 million plus mark-up of Rs. 250.000 million. The mark-up has already been fully paid.

Out of the above principal amount Rs. 35.000 million has been paid in the previous year and Rs. 784.431 million has been converted into long term loan, payable from 1st December, 2005 in half yearly equal instalment of Rs. 78.443 million each along with mark-up @ 2% above SBP discount rate. The balance of Rs.437.157 has been converted into short term facility. The accrued mark-up was payable on or before 1st December, 2005 and thereafter on or before first day of every six months. Which is being paid.



It has been agreed that company's exports to the extent of Rs 2500.000 million would be routed through NBP and the bank would deduct 10% of the export proceeds to be adjusted first against the outstanding mark-up thereafter against the half yearly principal amount.

This is secured by:

- (a) First charge by way of registered mortgage of plot no. A-4, S.I.T.E. Hyderabad together with all factory building, plant and machinery and all fixed assets.
- (b) First charge by way of hypothecation and letter of lien on book debts, stock and all movable assets.

Rupees
2008

Rupees
2007

8. OBLIGATION FOR ASSETS ACQUIRED UNDER FINANCE LEASE

Future Minimum Lease Payments	Rupees 2008	Rupees 2007
2007 - 2008	-	84,897,206
2008 - 2009	89,003,599	69,058,446
2009 - 2010	54,002,974	34,057,822
2010 - 2011	20,109,852	5,833,300
2011 - 2012	10,227,552	-
2012 - 2013	2,556,888	-
	175,900,865	193,846,774
Less: Financial charges allocated to future periods.	27,037,111	28,802,817
	148,863,754	165,043,957
Less: Current Portion (Note-9)	73,244,060	67,791,153
	75,619,694	97,252,804

Reconciliation of minimum lease payments and their present value is given below:

(Amount in Rupees)

	2008		2007	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within one year	89,003,599	73,244,060	84,897,206	67,791,153
Due after one year but not later than five year	86,897,266	75,619,694	108,949,568	97,252,804
	175,900,865	148,863,754	193,846,774	165,043,957

The implicit rate used as the discounting factor ranges from 7.5% to 25% per annum.

Lease rentals are payable in equal monthly / quarterly instalments.

The cost of repair, taxes and insurance are to be borne by the company.

The company has purchase option after the expiry of lease period.

	Rupees 2008	Rupees 2007
9. GRATUITY AND STAFF BENEFITS		
Provision for gratuity		
Opening balance	13,764,613	12,381,470
Provision made during the year	534,793	7,496,852
	<u>14,299,406</u>	<u>19,878,322</u>
Less: Paid during the year	5,217,078	6,113,709
	<u>9,082,328</u>	<u>13,764,613</u>
MEMBERSHIP DATA		
Number of members	133	551
Total monthly eligible salary	Rs. 599,550	Rs. 2,410,967
ACTUARIAL ASSUMPTIONS		
Discount rate	10%	10%
Expected rate of salary increase in future years	9%	9%
Average expected remaining working lifetime of employees.	10 years	10 years

EMPLOYEES COMPENSATED ABSENCE

Employees are allowed to proceed on annual earned leave accrued to them as a result of services rendered by them to company.

10. DEFERRED TAXATION

Deferred Tax (10.1)	<u>26,000,000</u>	<u>26,000,000</u>
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(10.1) In the view of the fact that the company is an export oriented company whose export sales are approximately 80% of the total sales and whereas export proceeds are subject to collection of tax at source which are treated as discharge of full and final tax liability for the purpose of Income Tax Ordinance 2001 and further the income tax assessments of the company are completed upto tax year 2007 and therefore timing differences are unlikely to reverse which warrants deferred tax provision. Accordingly the management has decided not to make any provision for deferred tax. Further existing provision is considered adequate by the management which is available for any liability for deferred tax arising out of accelerated depreciation, lease assets and staff gratuity.

11. TRADE AND OTHERS PAYABLES

Trade creditors	385,215,463	399,423,182
Accrued expenses (11.1)	30,060,757	55,589,697
Security deposits	20,000	20,000
Income tax deducted at source	16,939,400	16,326,463
Worker's profit participation fund (11.2)	10,345,704	16,764,938
Advance from customers	-	11,651,137
	<u>442,581,324</u>	<u>499,775,417</u>

An amount of Rs. 32,152,440/- included in accrued expenses for the year 2007 is reclassified as over due lease rentals.

(11.1) This includes divided which was declared for the year 2002 but payment has been stayed under the court order.



	Rupees 2008	Rupees 2007
(11.2) WORKERS' PROFIT PARTICIPATION FUND		
Opening at July 01	16,764,938	7,303,000
Profit Allocation for the year	1,980,000	5,354,000
Interest Accrued.	<u>3,011,625</u>	<u>4,107,938</u>
	21,756,563	16,764,938
Less: Payment made during the year	<u>11,410,859</u>	<u>-</u>
Balance At June 30	<u><u>10,345,704</u></u>	<u><u>16,764,938</u></u>

12. SHORT TERM RUNNING FINANCES UNDER MARK-UP ARRANGEMENT

From Banking Companies (Secured)	<u>2,708,582,466</u>	<u>1,885,484,238</u>
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These are secured against hypothecation and pledge of stock-in-trade and stores, book debts, lien on export contracts, letters of credit and foreign bills drawn, personal guarantee of sponsoring directors as well as equitable mortgage of fixed assets.

Facility extended to company amounts to Rs. 3,434.265 million Mark up is charged on the running finance facility at the rates KIBOR (3 months ask) plus 2% to 2.5% per Annum.

13. CURRENT PORTION OF LONG TERM LIABILITIES

Long Term Loans (Note # 7)	318,776,000	161,890,000
Finance Leases (Note # 8)	73,244,060	67,791,153
Over Due Lease Rentals	<u>73,306,410</u>	<u>32,152,440</u>
	<u><u>465,326,470</u></u>	<u><u>261,833,593</u></u>

14. CONTINGENCIES & COMMITMENTS

- | | | | |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------|
| (i) | In respect of letters of credit | 34.044 million | 21.151 million |
| (ii) | In respect of letters of credit (Local) | 10.400 million | 10.400 million |
| (iii) | Payment against documents (PAD) | 11.336 million | 9.635 million |
| (iv) | The company is contesting a number of cases under foreign exchange regulations in respect of non repatriation of export proceeds, however, the legal advisor of the company has opined that no financial loss is expected.
The aggregate repatriable amount is 128.865 million. (2007 Rs. 114.500 million) | | |
| (v) | There exists contingent liability: | | |
| | In respect of export bills sold. | Rs. 829.870 million | Rs. 1,515.902 million |
| | In respect of bank Guarantee | Rs. 7.654 million | Rs. 19.654 million. |
| (vi) | Mark up on loan from Allied Bank Limited amounting to Rs. 407.550 million is not provided in the books because the matter is subjudice in the court, but has been shown under contingent liabilities. | | |

15. FIXED ASSETS

AMOUNT IN RUPEES

PARTICULARS	COST				DEPRECIATION						WRITTEN DOWN VALUE AS ON 30-06-2008	WRITTEN DOWN VALUE AS ON 30-06-2007
	AS ON 01-07-2007	ADDITION/ (DELETION)	REVALUATION	AS ON 30-06-2008	RATE %	AS ON 01-07-2007	FOR THE PERIOD	AMORTIZATION OF SURPLUS ON REVALUATION	ADDITION/ (DELETION)	ACCUMULATED DEPRECIATION		
OWN ASSETS												
Factory Land - Lease hold	385,110,000	0	0	385,110,000	0	0	0	0	0	0	385,110,000	385,110,000
Agricultural Land	317,325,000	0	0	317,325,000	0	0	0	0	0	0	317,325,000	317,325,000
Factory & Colony Building on Lease Hold Land	431,1,849	766,382	0	431,923,231	10	205,355,928	5,028,806	17,627,924	0	228,012,658	203,910,573	225,800,921
Garden Building	299,658	0	0	299,658	10	46,973	25,269	0	0	72,242	227,416	252,685
Plant & Machinery	2,660,037,076	50,156,567 (75,878,033)	0	2,634,315,610	10	1,595,068,815	52,422,138	48,879,133	26,234,090	1,722,604,176	911,711,434	1,064,968,261
Garden Fixed Assets	103,507	225,000	0	328,507	10	33,710	29,480	0	0	63,190	265,317	69,797
Office Equipments	11,824,669	0	0	11,824,669	10	9,060,828	276,384	0	0	9,337,212	2,487,457	2,763,841
Tools & Equipments	30,291,826	0	0	30,291,826	10	19,129,070	1,116,276	0	0	20,245,346	10,046,480	11,162,756
Electric Fittings	59,257,107	0	0	59,257,107	10	45,245,374	1,401,173	0	0	46,646,547	12,610,560	14,011,733
Furniture & Fixtures	17,813,614	30,000	0	17,843,614	10	13,805,298	403,832	0	0	14,209,130	3,634,484	4,008,316
Water Pipe Line	7,879,250	0	0	7,879,250	10	6,524,187	135,506	0	0	6,659,693	1,219,557	1,355,063
Vehicles	26,212,089	4,298,000	0	30,510,089	20	22,866,845	1,136,244	0	1,962,023	25,965,112	4,544,977	3,345,244
Air Conditioning Plant	12,406,327	161,150	0	12,567,477	10	9,337,694	322,978	0	0	9,660,672	2,906,805	3,068,633
Arms	942,185	0	0	942,185	10	756,565	18,562	0	0	775,127	167,058	185,620
Computers	35,919,568	0	0	35,919,568	10	26,209,570	971,000	0	0	27,180,570	8,738,998	9,709,998
	3,996,578,725	(20,240,934)	0	3,976,337,791		1,953,440,857	63,287,648	66,507,057	28,196,113	2,111,431,675	1,864,906,116	2,043,137,868
ASSETS SUBJECT TO FINANCE LEASE												
Plant & Machinery	365,216,192	75,878,033 (50,000,000)	0	391,094,225	10	119,651,432	29,767,688	0	(26,234,090)	123,185,030	267,909,195	245,564,760
Vehicles	22,860,847	(4,298,000)	0	18,562,847	20	11,415,033	1,821,967	0	(1,962,023)	11,274,977	7,287,870	11,445,814
	388,077,039	21,580,033	0	409,657,072		131,066,465	31,589,655	0	(28,196,113)	134,460,007	275,197,065	257,010,574
TOTAL 2007 - 2008	4,384,655,764	1,339,099	0	4,385,994,863		2,084,507,322	94,877,303	66,507,057	0	2,245,891,682	2,140,103,181	2,300,148,442
TOTAL 2006 - 2007	4,279,323,245	105,332,519	0	4,384,655,764		1,909,411,879	105,681,296	73,896,731	(4,482,584)	2,084,507,322	2,300,148,442	



	Rupees 2008	Rupees 2007
15.1 Depreciation of assets have been apportioned as under:		
(a) Cost of sales	89,871,587	99,754,764
(b) Administration Expenses	4,950,967	5,890,701
(c) Garden Income	54,749	35,831
	94,877,303	105,681,296

15.2 Surplus on revaluation of land, factory & colony building and plant & machinery was incorporated firstly on 30th September, 1999 and subsequently on June 30, 2006, summarized position of which are as follows:-

	Agricultural Land Rupees	Factory Land Rupees	Factory & Colony Building Rupees	Plant And Machinery Rupees	Total Rupees
Cost as at June 30, 2005	6,694,287	45,355,125	231,905,730	2,497,571,852	2,781,526,994
Less: Accumulated depreciation upto June 30, 2005.	0	0	152,429,258	1,418,767,759	1,571,197,017
Written down value	6,694,287	45,355,125	79,476,472	1,078,804,093	1,210,329,977
Depreciated replacement cost	317,325,000	385,110,000	268,982,019	1,377,925,600	2,349,342,619
Surplus	310,630,713	339,754,875	189,505,547	299,121,507	1,139,012,642
Opening Balance	0	41,575,595	57,209,369	619,070,686	717,855,650
	310,630,713	381,330,470	246,714,916	918,192,193	1,856,868,292
Incremental depreciation transferred to retained earnings					
Upto 30-06-2007	0	0	70,435,671	429,400,865	499,836,536
Related deferred tax	0	0	0	0	84,925,000
Current year - Incremental depreciation transferred to accumulated depreciation.	0	0	17,627,924	48,879,133	66,507,057
Balance					1,205,599,699

Had there been no revaluation the figures of land, factory and colony building and plant & machinery as at June 30, 2008 would have been as follows:-

	Cost Rupees	Accumulated Depreciation Rupees	Written Down Value Rupees
Land	3,779,530	0	3,779,530
Factory and colony building	183,510,812	131,548,774	51,962,038
Plant and machinery	1,885,671,780	1,264,734,287	620,937,493
2008	2,072,962,122	1,396,283,061	676,679,061
2007	2,072,389,973	1,309,367,989	763,021,984

	2008 Rupees	2007 Rupees
16. LONG TERM INVESTMENTS		
Quoted Companies - Available for sale	5,951,447	8,053,825
Less:-		
Provision for share investment theft	1,382,588	1,382,588
Provision for diminution in value	119,438	119,438
	<u>4,449,421</u>	<u>6,551,800</u>
 Add: Other (16.1)	 521,582,993	 521,582,993
	<u><u>526,032,414</u></u>	<u><u>528,134,792</u></u>

16.1 This is made up as under:-

Allied Bank Limited (16.1.1)		
16.376 million shares of Rs. 10 each	521,582,993	521,582,993
Investment in Talpur Textile Mills		
Goodwill	775,371	775,371
51% shareholding	2,550,000	2,550,000
Current Account	1,116,127	1,116,127
Loan Account	2,300,000	2,300,000
	<u>6,741,498</u>	<u>6,741,498</u>
Less:-		
Provision for diminution in value	6,741,498	6,741,498
	<u>0</u>	<u>0</u>
	<u><u>521,582,993</u></u>	<u><u>521,582,993</u></u>

16.1.1 On 23rd July 2004 Privatization Commission of Pakistan invited open bids to raise additional (75%) capital of the Allied Bank of Pakistan Ltd. and highest bid was Rs.43/- per share.

The company has filed a suit against the bank in the High Court of Sindh against inviting bids for sale of these shares at their reserve price of Rs. 25 per share. Highest bid stated to have been received @ Rs.25.51 per share which was approved and a sum of Rs. 417.754 million has been deposited with Allied Bank Limited. It would however be noted that additional shares were sold at Rs. 43 per share where as at the same time the holding of the company was sold for Rs. 25.51 per share which can only be said to be unjustified. However the matter is still pending in the court.

The price of ABL shares quoted at Karachi Stock Exchange (Guarantee) Ltd. was Rs. 85.27/ share as at June 30,2008, However gain of (Rs. 874.798 m) on these shares have not been taken to "statement of changes in equity" as required by IAS 39 since management has decided that these shares should remain at its cost price till the outcome of suit and countersuit in Sindh High Court.



	Rupees 2008	Rupees 2007
17. STORES, SPARES & LOOSE TOOLS (AT COST)		
Stores	20,134,693	71,819,444
Spares	9,992,916	13,573,487
Loose tools	0	1,053,833
	<u>30,127,609</u>	<u>86,446,764</u>
18. STOCK - IN - TRADE (AT COST)		
Raw and packing materials	2,039,242,279	2,083,323,895
Goods in process	21,259,431	61,851,949
Finished goods	57,016,741	119,998,183
Raw material in transit	8,109,680	2,379,686
	<u>2,125,628,131</u>	<u>2,267,553,713</u>
19. TRADE DEBTS -UNSECURED		
Considered good	3,848,163,811	2,335,579,503
Considered doubtful	284,208,453	271,515,663
	<u>4,132,372,264</u>	<u>2,607,095,166</u>
Provision for bad and doubtful debts	(284,208,453)	(271,515,663)
	<u>3,848,163,811</u>	<u>2,335,579,503</u>
The amounts due from associated undertakings included in the above balance are as under:-		
Barkat Cotton Mills Limited	4,384,142	29,996,182
Fateh Limited	963,728	3,494,801
Fateh Outerwear Limited.	3,112,655	11,437,655
Hero Motors Limited	41,441,118	37,066,986
	<u>49,901,643</u>	<u>81,995,624</u>
The balance with the first three associated concerns are old current accounts. There has been no sale/ purchase from the first three associated undertakings and only on account payments have been received. Hero Motors Limited have been supplied engineering goods at market rates.		
20. ADVANCES, DEPOSITS AND PREPAYMENTS (Considered Good)		
Advances:		
Employees	10,515,049	14,216,240
Contractors	1,192,782	1,241,997
Against purchases	1,830,921	3,235,709
Against travelling	720,068	712,068
Suppliers	22,636,102	42,783,471
Others	6,971,625	3,834,031
Against expenses	91,990	761,940
	43,958,537	66,785,456
Deposits:		
Securities - others	247,690	244,190
Margin on bank guarantees	7,655,250	8,206,750
	<u>7,902,940</u>	<u>8,450,940</u>
	<u>51,861,477</u>	<u>75,236,396</u>

	Rupees 2008	Rupees 2007
21. OTHER RECEIVABLES		
Export Rebates	66,363,320	142,761,457
Sales tax refundable	88,917,709	124,305,759
	<u>155,281,029</u>	<u>267,067,216</u>
22. CASH & BANK BALANCES		
Cash in hand	776,827	1,100,919
Cash at banks (In current accounts)	3,669,922	36,973,532
(In deposit accounts)	8,151,516	18,798,083
	<u>12,598,265</u>	<u>56,872,534</u>
23. SALES		
Sales	4,794,217,671	6,343,519,400
Less:		
Sales commission	2,810,378	9,800,302
Sales tax	75,325,598	44,310,783
	<u>78,135,976</u>	<u>54,111,085</u>
	<u>4,716,081,695</u>	<u>6,289,408,315</u>
The amount of export sales included in the above is Rs. 3,943,813,919 (2007 - Rs. 5,244,121,796)		
24. COST OF SALES		
Raw & packing materials consumed (24.1)	3,832,971,386	5,214,298,633
Salaries, wages & other benefits	115,292,010	183,320,612
Stores, spare parts consumed	24,791,104	55,225,473
Repairs and maintenance	4,128,910	5,293,257
Fuel and power	98,081,576	187,473,009
Rent, rates and taxes	1,504,268	1,382,535
Insurance	2,087,308	5,033,884
Depreciation	89,871,587	99,754,765
	<u>4,168,728,150</u>	<u>5,751,782,168</u>
Goods-in-Process		
Opening inventory	61,851,949	60,532,234
Closing inventory	(21,259,431)	(61,851,949)
	<u>40,592,518</u>	<u>(1,319,715)</u>
COST OF GOODS MANUFACTURED	<u>4,209,320,668</u>	<u>5,750,462,453</u>
Finished Goods		
Opening balance	119,998,183	114,748,377
Closing balance	(57,016,741)	(119,998,183)
	<u>62,981,442</u>	<u>(5,249,806)</u>
	<u>4,272,302,110</u>	<u>5,745,212,647</u>



	Rupees 2008	Rupees 2007
24.1 RAW & PACKING MATERIAL CONSUMED		
Opening inventory	2,083,323,895	1,938,888,152
Add: Purchases	<u>3,788,889,770</u>	<u>5,358,734,376</u>
	5,872,213,665	7,297,622,528
Less: Closing Inventory	<u>2,039,242,279</u>	<u>2,083,323,895</u>
	<u>3,832,971,386</u>	<u>5,214,298,633</u>
25. ADMINISTRATIVE EXPENSES		
Salaries, wages and benefits	36,174,834	41,922,486
Traveling, conveyance and entertainment	2,910,102	651,404
Rent, rates, taxes and subscription	2,146,970	1,953,074
Repairs and maintenance	304,465	1,018,800
Printing and stationery	377,496	1,198,872
Communication	2,213,503	1,972,098
Vehicles running expenses	4,927,394	8,962,175
Computer consumables	222,256	639,131
Other administrative expenses	3,050,190	5,680,194
Legal & professional charges	1,380,969	4,856,649
Guest expenses	1,453,185	1,465,762
Depreciation	4,950,967	5,890,701
	<u>60,112,331</u>	<u>76,211,346</u>
26. SELLING EXPENSES		
Freight & handling	39,092,596	38,156,881
Export expenses	4,102,617	24,184,894
Clearing agent expenses	32,950	1,530,620
Advertisement	793,309	1,556,971
Export development surcharge	5,697,998	9,360,598
	<u>49,719,470</u>	<u>74,789,964</u>
27. OTHER INCOME		
Miscellaneous income	0	115,592
Dividend income	153,210	108,696
Profit on bank deposits	960,955	663,285
Profit on sale of Investments	10,275	0
Profit on sale of fixed assets	0	676,857
Gain on exchange rate	93,476,002	27,589,180
(Loss) /Income from gardens-net	(25,600)	(707,544)
Research and development support-Net (27.1)	18,712,674	93,606,332
	<u>113,287,516</u>	<u>122,052,398</u>
27.1 Research and development support	32,669,987	156,600,222
Research and development expenses	<u>13,957,313</u>	<u>62,993,890</u>
	<u>18,712,674</u>	<u>93,606,332</u>

28	FINANCIAL EXPENSES	Rupees 2008	Rupees 2007
	Interest & other charges on :		
	Long term loans	57,472,648	66,589,858
	Mark-up on export refinance	128,420,033	168,608,323
	Mark-up on running finance	174,130,853	85,495,583
	Mark-up on lease finance	23,391,945	27,700,394
	Bank charges & commission	3,681,403	7,048,806
	W. P. P. F.	3,011,625	4,107,938
		<u>390,108,507</u>	<u>359,550,902</u>
29.	OTHER CHARGES		
	Auditors' remuneration (29.1)	760,750	833,250
	Workers profit participation fund	1,980,000	5,354,000
	Niaz expenses	3,284,343	3,363,782
	Diminution in value of investments	975	0
	Provision for bad & doubtful debts	12,692,790	10,000,000
	Provision for share investment theft	0	90,869
	Insurance claim written off	0	32,999,747
	Donations (29.2)	851,550	1,386,780
		<u>19,570,408</u>	<u>54,028,428</u>
29.1	Audit fee	500,000	500,000
	Review of half yearly accounts	200,000	200,000
	Out of pocket expenses	60,750	133,250
		<u>760,750</u>	<u>833,250</u>
29.2	Recipients of donations do not include anybody in whom any director or his spouse had any interest.		
30.	TAXATION CURRENT	<u>29,500,000</u>	<u>51,000,000</u>
31.	PROPOSED DIVIDEND		
	The directors have proposed a cash dividend of Rs. 1,250,000/- @ Rs. 1 per ordinary share of Rs. 10/- each for the year 2007-2008 which is subject to approval by the members at the forthcoming AGM.		
	Pursuant to requirement of IAS-10 "Events after the balance sheet date" the proposed dividend has not been included as a liability in these financial statements.		
32.	EARNING PER SHARE		
	Net profit after tax for the year	8,056,385	50,667,426
	Number of ordinary shares	<u>1,250,000</u>	<u>1,250,000</u>
	Earning per share (Rupees)	<u>6.45</u>	<u>40.53</u>



33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

33.1 Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company applies credit limits to its customers and does not have significant exposure to any individual customer.

33.2 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The company is not exposed to any interest rate risk.

33.3 Fair value of Financial Instruments

The carrying value of all the financial instruments reported in the financial statements approximate their fair value.

33.4 Market Risk

Market risk includes (1) currency risk which signifies that value of a financial instrument will fluctuate due to changes in foreign exchange rates. (2) Price risk which signifies that value of financial instrument will fluctuate as result of exchange in market prices. This risk embodies potential loss and gain. The Company is not exposed to any material market risk.

33.5 Financial Assets & Liabilities as on 30th June, 2008

	Rate of interest	Interest Bearing			Non Interest Bearing	2008 Total Rupees	2007 Total Rupees
		Maturity Upto One Year	Maturity After One Year	Sub Total			
Financial Assets							
Investment	0	0	0	0	526,032,414	526,032,414	528,134,792
Trade Debtor's	0	0	0	0	3,848,163,811	3,848,163,811	2,335,579,503
Advances, deposits and prepayments	0	0	0	0	51,861,477	51,861,477	75,236,396
Other receivable	0	0	0	0	155,281,029	155,281,029	267,067,216
Cash and bank	0	0	0	0	12,598,266	12,598,266	56,872,534
	0	0	0	0	4,593,936,997	4,593,936,997	3,262,890,441
Financial Liabilities							
Liabilities against assets subject to finance lease	7.5% to 25%	73,244,060	58,836,739	132,080,799	0	132,080,799	165,043,957
Long term loans	11% to 14%	318,776,000	1,390,786,692	1,709,562,692	0	1,709,562,692	1,709,562,692
Short term bank borrowings	3 months (ask) KIBOR +2.5%	2,708,582,466	0	2,708,582,466	0	2,708,582,466	1,885,484,238
Trade & Other Payables	0	0	0	0	442,581,324	442,581,324	499,775,417
Mark up on Secured Finance	0	0	0	0	980,385,137	980,385,137	730,210,346
		3,100,602,526	1,449,623,431	4,550,255,958	1,422,966,462	5,973,192,419	4,990,076,650

33.6 Liquidity Risk

Inability to raise funds to meet commitments indicates liquidity risk. The management closely monitors the ability of the company to raise funds and its cash flow position.

33.7 Foreign Exchange Risk

Foreign exchange risk arises mainly due to conversion of foreign currency assets and liabilities into local currency. The company is not materially exposed to foreign currency risk on assets and liabilities.

34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

The aggregate amount charged in accounts during the year for remuneration, including benefits to the Chief Executive, full time working Directors and other Executives of the company is as follows:-

	Chief Executive Rupees	Directors Rupees	Executives Rupees	Total 2008 Rupees	Total 2007 Rupees
Meeting fees	0	2,000	0	2,000	2,000
Remunerations	414,000	483,000	0	897,000	1,656,000
House rent allowance	186,000	217,000	0	403,000	744,000
Utilities	185,650	310,330	0	495,980	766,850
Reimbursable expenses	35,355	50,350	0	85,705	95,000
Rupees	821,005	1,062,680	0	1,883,685	3,263,850

Number of persons

2008	1	2	0	3
2007	1	3	0	4

There was no loan or advance granted to Directors during the year. Company maintained car is provided to Chief Executive and to full time working Directors and medical expenses for self and family are paid at actual.



	Rupees 2008	Rupees 2007
35. PRODUCTION CAPACITY		
Spinning		
Plant capacity of yarn after conversion into 20 counts (Kgs.)	9,400,000	9,400,000
Actual production of yarn after conversion into 20 counts (Kgs.)	2,434,122	8,109,229
Number of spindles	30,720	30,720
Number of shifts worked per day	Three	Three
Due to different kinds of products mix the production capacity of composite unit cannot be accurately determined.		
36. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS		
Sale of goods and services	330,497,531	191,994,384
Purchase of goods and services	Nil	Nil
37. NUMBER OF EMPLOYEES AT YEAR END	579	2309
38. CORRESPONDING FIGURES		
Figures have been rounded off to the nearest rupee.		
39. DATE OF AUTHORIZATION FOR ISSUE		
These Financial statements were authorized for issue on 28th September,2008 by the board of directors of the company.		

HUMAYUN BARKAT
Chief Executive

MAQSOOD AHMED KHAN
Director