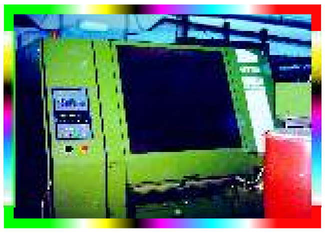

NAGINA

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21

ANNUAL REPORT

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# ELLCOT SPINNING MILLS LTD.

بسم الله الرحمن الرحيم

# COMPANY INFORMATION

## BOARD OF DIRECTORS

| | |
|---|---|
| Mr. Shaikh Enam Ellahi | Chairman |
| Mr. Jamal Nasim | (Nominee NIT) |
| Mr. S.M. Yusuf | |
| Mr. Shaukat Ellahi Shaikh | |
| Mr. Shahzada Ellahi Shaikh | |
| Mr. Shafqat Ellahi Shaikh | |
| Mr. Syed Mohsin Gilani | |

## MANAGING DIRECTOR (Chief Executive)

Mr. Shafqat Ellahi Shaikh

## AUDIT COMMITTEE

| | |
|---|---|
| Mr. Shaikh Enam Ellahi | Chairman |
| Mr. Shahzada Ellahi Shaikh | Member |
| Mr. Shaukat Ellahi Shaikh | Member |
| Mr. Syed Mohsin Gilani | Secretary |

## CHIEF FINANCIAL OFFICER (CFO)

Mr. Muhammad Ahmad

## CORPORATE SECRETARY

Mr. Syed Mohsin Gilani

## AUDITORS

Messrs Rahman Sarfraz Rahim Iqbal Rafiq
Chartered Accountants,
Apartment No. 4, Block-B,
90-Canal Park, Gulberg-II,
Lahore-54660.

## REGISTERED OFFICE

Nagina House,
91-B-1, M.M. Alam Road,
Gulberg-III, Lahore-54660.

## SHARES REGISTRARS

M/s Hameed Majeed Associates (Pvt.) Ltd.
1st Floor, H.M. House,
7-Bank Square, Lahore
Phone # 042-7235081-2,
Fax # 042-7358817

## MILLS

Mouza Rossa,
Manga Mandi Raiwind Road,
Tehsil & District Kasur.

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# NOTICE OF MEETING

21st Annual General Meeting of ELLCOT SPINNING MILLS LTD. will be held at the Registered Office of the Company, Nagina House, 91-B-1, M.M. Alam Road, Gulberg-III, Lahore-54660 on Monday the 26th October, 2009 at 11:30 a.m. to transact the following business:-

1. To confirm minutes of the 20th Annual General Meeting held on the 27th October, 2008.

2. To receive and adopt audited accounts of the Company for the year ended on 30th June, 2009 together with the Directors' and Auditors' reports thereon.

3. To approve dividend as recommended by the Directors.

4. To appoint auditors and to fix their remuneration

5. **Special Business**

   a) To consider and if thought fit to approve under section 208 of the Companies Ordinance 1984, with or without amendments, investment / advance (s) to the Associated Companies:

      i) Nagina Cotton Mills Ltd.
      ii) Prosperity Weaving Mills Ltd.

   b) To consider and if thought fit to approve with or without modification, amendment to the Articles of Association of the Company.

6. To transact any other ordinary business with the permission of the Chair.

Resolutions proposed to be moved at the meeting and statement under Section 160 of the Companies Ordinance, 1984 are being sent to the members with notice of meeting.

By Order of the Board

**Syed Mohsin Gilani**
Corporate Secretary

Lahore: September 29, 2009

NOTES:

1. The share transfer books for ordinary shares of the Company will be closed from Tuesday the 20th October, 2009 to Monday the 26th October, 2009 (both days inclusive). Valid transfer(s) received in order by our Shares Registrars, M/s Hameed Majeed Associates (Pvt.) Limited, 1st Floor, H.M. House, 7-Bank Square, Lahore, by the close of business on Monday the 19th October, 2009 will be in time to be passed for payment of dividend to the transferee(s).

2. A member entitled to attend and vote at the general meeting is entitled to appoint another member as proxy. Proxies, in order to be effective, must be received at the Company's registered office not less than forty eight (48) hours before the time of meeting. Account and sub-account holders of the Central Depository System appointing proxies must attach attested copy of their National Identity Card with the proxy form.

3. Account holders and sub-account holders, holding book entry securities of the Company in CDS of Central Depository Co. of Pakistan Ltd., who wish to attend the Annual General Meeting are requested to please bring original National Identity Card with copy thereof duly attested by their Bankers for identification purpose.

4. In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.

5. Shareholders are requested to promptly notify the company of any change in their address.

**Proposed resolutions and Statement under Section 160**
**<u>of the Companies Ordinance, 1984.</u>**

The following resolutions which set out the material facts concerning the Special business will be moved at the meeting for approval with or without modification(s).

1. ***Resolution for investment / advance to Associated Companies:***

RESOLVED that consent and approval of the members of the Company be and is hereby accorded under Section 208 of the Companies Ordinance, 1984 that the Mg. Director (Chief Executive) be and is hereby authorised to grant, from time to time, temporary advance(s) / loan(s) of upto Rs. 75,000,000/= (Rupees seventy five million only), for a period not exceeding 3 months from the date of investment, at any one time, to each of the following Associated Companies:

(i) M/s. Nagina Cotton Mills Ltd.
(ii) M/s. Prosperity Weaving Mills Ltd.,

FURTHER RESOLVED that return on any investment made shall not be less than the borrowing costs of the Company to be determined by the Chief Executive of the Company.

FURTHER RESOLVED that this authority shall remain in force until revoked by the shareholders in duly convened general meeting of the Company

FURTHER RESOLVED that the Mg. Director (Chief Executive) be and is hereby authorised to do all the acts, deeds and things necessary to implement this resolution and is hereby empowered to make amendment/modification, if any, required by the Securities & Exchange Commission of Pakistan and such amendment/modification shall be deemed to have been approved by the shareholders.

***Statement under section 160 of the Companies Ordinance, 1984.***

Investee Companies

1. M/s. Nagina Cotton Mills Ltd., (NCML)
Having registered office 2nd Floor, Shaikh Sultan Trust Bldg. No. 2, 26-Civil Lines, Beaumont Road, Karachi with paid up capital Rs.187,000,000/- divided into 18,700,000 ordinary shares of Rs.10/- each.

2. M/s. Prosperity Weaving Mills Ltd. (PWML)
Having registered office Nagina House, 91-B-1, M.M. Alam Road, Gulberg-III, Lahore-54660 with paid up capital Rs.184,800,000/- divided into 18,480,000 ordinary shares of Rs.10/- each.

Amount and Purpose

The amount involved shall be upto a maximum sum of Rs.75.00 million at any one time to each Associated Company mentioned above.

The purpose is to help the Associated Companies tide over temporary needs, at the same time earn higher return, than available from Banks, on temporary surplus funds of the Company.

Financials of the Investee Company on the basis of last published financial (for the year ended on 30th June, 2009)

| | NCML Rupees in Millions | PWML Rupees in Millions |
|---|---|---|
| Net sales | 2,136.846 | 3,634.559 |
| Gross Profit | 195.131 | 368.861 |
| Profit before tax | 14.650 | 108.120 |
| Profit after tax | 7.576 | 83.902 |

Rate of Mark-up

The return on any investment made shall not be less than the borrowing costs of the Company to be determined by the Chief Executive of the Company.

| | |
|---|---|
| Particulars of collateral security to be obtained from borrower. | Management does not consider it necessary to obtain collateral security from borrowing company as all companies are under common management. |
| Source of Funds | The investment will be made out of the Company's available surplus funds. |
| Repayment schedule | temporary advance(s) / loan(s) shall be for a period not exceeding 3 months from the date of investment, at any one time, to each of the Associated Companies: |
| Purpose of Loans | The purpose is to help the Associated Companies tide over temporary needs, at the same time earn higher return, than available from Banks, on temporary surplus funds of the Company. |
| Benefits likely to accrue | The temporary loans benefit the investing company to earn higher rate of return on its short term surplus funds, which will reduce the over all cost of funds to the Company and thus help its profitability for the benefit of the shareholders. |
| Personal Interest of Directors. | The Directors of the Company are interested in the business to the extent of their shareholding of the aforesaid associated companies. |

**2. *Resolution for Amendments to Articles of Association***

RESOLVED as Special resolution following amendments be and are hereby made to the Articles of Association of the Company.

a. Second para of existing Article 39 of Articles of Association of the Company be deleted and the following be substituted:

"The business of an Annual General Meeting shall be to receive and consider the profit and Loss Account and Balance Sheet, the reports of the Directors and Auditors, to elect Directors and Auditors in place of those retiring, to fix remuneration of Auditors, to declare dividends and to transact any other business which under these presents, ought to be transacted at an Annual Meeting and any business which is brought under consideration by the report of the Directors issued with notice convening the Meeting. All other business transacted at Annual General Meeting and all business transacted at the Extra-Ordinary General Meeting shall be deemed special."

b. Existing Article 95 of Articles of Association of the Company be deleted and the following be substituted.

"The remuneration payable to the Managing Director and other working Directors shall be fixed by the Board."

Statement under section 160 of the Companies Ordinance, 1984.

Articles 39 & 95 of Articles of Association of the company are proposed to be amended by the above said resolution so as to bring the same in conformity with the requirements of the Companies ordinance, 1984.

The Directors do not have any interest in the proposed alterations to the Articles of Associations.

# Vision:

*To be a dynamic, profitable and growth oriented company.*

# Mission:

*To be the leading producer of cotton and blended Yarn for knitting and weaving for local and international customers manufacturing well-known textile brands.*

*To strive for excellence and sustain position as a preferred supplier for yarn with a customer focused strategy.*

*Continuous enhancement in the quality objectives for customer satisfaction and operational efficiencies.*

*To achieve the comparative advantage by employing latest technologies for enhancing the efficiency and productivity.*

*To build enduring relationship with our suppliers by giving them fair return on their products and services.*

*To provide a professional, open and participative environment to our dedicated employees for developing their potential and team performance.*

*To give consistent financial returns to the shareholders on their investments.*

*To be responsible to the society, employees and communities in which we operate by initiating health care, education and social welfare activities.*

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# ***Directors' Report***

*IN THE NAME OF ALLAH THE MOST GRACIOUS*
*THE MOST BENEVOLENT THE MOST MERCIFUL*

The Directors have the pleasure to present 21st Annual report of the Company together with audited accounts and auditors' report thereon for year ended June 30, 2009. Comparative figures in the Balance Sheet and Profit & Loss a/c's are for the year ended 30th June, 2008.

Production of Cotton and Blended yarns during the year at 11,260,336 Kgs. (2007-08: 10,460,586 Kgs.) Yarn production during the year was 7.65% higher than 2007-08. The average count spun was 8.19 coarser. Alhamdolillah, during the year, net sales value of Yarn increased from Rs. 1,742,132,044/= in 2007-08 to Rs. 2,042,546,478/= or increase of 16.45%. Average sales price per Kg. of yarn increased 6.45% over the previous year.

Overall fibre consumption of the Company during the year increased by 8.17% to 13,640,140 Kgs. (2007-08: 12,609,351 Kgs.).

Salaries, wages & benefits at the mills increased due to increase in minimum wages and normal increments by 18.49% to Rs. 126,406,617/= (2007-08 Rs. 106,681,825/=).

Distribution costs are Rs. 25,501,556/= or 1.05% of sales. (2007-08: Rs. 39,223,949/= or 2.14% of sales). Administrative expenses amounted to Rs. 46,825,741/=or 1.93% of sales. (2007-08: Rs. 36,337,871/= or 1.99% of sales).

Other operating expenses are Rs. 5,264,743/= or .22% of sales (2007-08: Rs. 21,124,160/= or 1.15 % of sales). **Net finance costs for the year increased by Rs. 85,433,141/= or 90.24% and are Rs. 180,108,142/= or 7.24% of sales.** (2007-08: Rs. 94,675,001/= or 5.18% of sales).

Gross profit for the year amounts to 10.69% of sales (2007-08: 14.63% of sales). Other operating income amounts to Rs. 3,339,605/= or 0.14% of sales. (2007-08: Rs. 8,222,937/= or 0.45% of sales).

After providing Rs.94,841,991/= for Depreciation (2007-08: Rs. 97,059,183/=), Profit before tax amounts to Rs. 5,254,323/= (2007-08: Rs. 64,386,774/=). Deferred tax provision for current year amounts to Rs. 3,025,398/= (2007-08: Rs.10,102,301/=). Tax provision for the current year amounts to Rs. 5,305,981/= (2007-08: Rs 9,207,374/=). After tax profit for the current year amounts to Rs. 996,951/=. (2007-08: Rs. 65,077,099/=). Earning per share (EPS) is Rs. 0.09 (2007-08: 5.94).

The reason for low profit are fall in demand for Yarn in the wake of world wide recession and consequent fall in yarn prices, excessive financial charges compared to previous year and increase in minimum wages. Directors are hopeful that situation is likely to improve and year 2009-10 will be profitable year.

The Company, during the year sold surplus Electricity to the Lahore Electric Supply Co. (LESCO). Sale during the year amounted to Rs. 255,907,622/=. (Sale during 2007-08 amounted to Rs. 49,698,554/=.).

Balancing, Modernisation & Replacement (BMR) of Buildings, Plant & equipment is essential for survival in the fiercely competitive markets. During the year Rs. 46,839,946/= were spent on Machinery.

Inspite of low profit for the year the directors have decided to recommend payment of cash dividend @ 75 paisas or 7.5% i.e paisas seventy five only per share by transfer from unappropriated profit. The dividend will absorb Rs. 8,212,500/=.

According to press reports, Government of Pakistan has fixed target of 13.36 million bales of Cotton (lint) for crop season 2009-10. According to the Pakistan Cotton Ginners Association, for 2009-10 season *Kapas* (seed cotton) arrivals upto September 01, 2009 amounts to 1,291,550 (2008-09: figures not collected) lint equivalent bales. At this stage it is not possible to visualize the effect the Crop size will have on price of our basic raw material.

One of the risk factors for Spinning Sector is the pattern of Raw Cotton business in Pakistan. Raw Cotton for full year's consumption has to be purchased, essentially in three months. If the prices fall, as happened in financial year 2003-04, large scale losses can occur.

Severe recession, the worst since 1930's, has engulfed the world including U.S.A, U.K., European Union, India, Japan, China including Pakistan. However, the Company's business in the current year (2008-09), so far under the prevailing circumstances, has been satisfactory and the Directors hope and pray that 2009-10 will be another profitable year.

In the light of the company's overall objectives, the Board of Directors regularly reviews the company's strategic direction, annual plans and performance targets set for the business. The Board is committed to maintain the high standards of good corporate governance.

There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.

The financial statements, prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity. Company has maintained proper books of accounts.

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and non-applicability, if any, has been adequately disclosed.

System of internal control is sound in design and has been effectively implemented and monitored.

There is no doubt about the company's ability to continue as a going concern.

Operating and financial data and key ratios of last 10 years are annexed.

The statement of shareholdings, in Form 34 and form prescribed in Listing Regulations, as at June 30, 2009 are annexed.

During 2008-09, no trade in the shares of the Company were carried out by the CFO, Company Secretary, Directors, their spouses and minor children.

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director is as follows:

| S # | Name | Attended |
|---|---|---|
| 1. | Mr. Shaikh Enam Ellahi | 4 (Four) |
| 2. | Mr. Shahzada Ellahi Shaikh | 4 (Four) |
| 3. | Mr. S. M. Yusuf | 4 (Four) |
| 4. | Mr. Shaukat Ellahi Shaikh | 3 (Three) |
| 5. | Mr. Shafqat Ellahi Shaikh | 3 (Three) |
| 6. | Mr. Jamal Nasim | 3 (Three) |
| 7. | Mr. Syed Mohsin Gilani | 4 (Four) |

Leave of absence was granted to Director who could not attend Board meeting.

The present auditors, Messrs. Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, Lahore are due to retire and being eligible, offer themselves for re-appointment as auditors for the yea 2009-10.

The continued good results have been possible due to continued diligence and devotion of the Staff and workers of the Company and the continued good human relations at all levels deserve acknowledgement.

On behalf of the Board

Sd/- Ellahi Sh

Shafqat Elllahi Shaikh
Mg. Director (Chief Executive)

Lahore, September 29, 2009

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the code of corporate governance contained in listing regulation of Karachi and Lahore Stock Exchanges for the purpose of establishing framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the code in the following manner:

1. The company encourages the representation of independent non-executive directors and directors representing minority interests on its board of directors. At present there are five non executive directors on the Board, including one directors representing minority shareholders.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFI. None of the directors are or were members of any Stock Exchange.

4. No casual vacancy occurred in the Board during the year.

5. The business of the Company is conducted in accordance with the 'Statement of Ethics and Business Practice' signed by all the directors and employees.

6. The business operations of the Company are carried out in accordance with the Company's vision/mission statement, overall corporate strategy and significant policies. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. The Company has arranged orientation courses for its directors to acquaint them with their duties and responsibiities and enable them to manage the affairs of the company on the behalf of shareholders.

10. The CFO, Company Secretary and Head of Internal Audit have executed their responsibilities pursuant to the approved appointment by the Board including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The audit committee as formed by the Board is fully functional. The committee comprises three members, all of whom are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set up an effective internal audit function.

18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. All related party transaction were approved and reviewed by the Board of Directors and placed before the Audit Committee. All records prescribed in this context were maintained.

21. We confirm that all other material principles contained in the Code have been complied with.

for & on behalf of the Board

**SHAFQAT ELLAHI SHAIKH**
Mg. Director (Chief Executive)
NIC NO. 35202-2691892-9

Lahore: September 29, 2009

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# OPERATING FINANCIAL & INVESTMENT RATIOS
## AS ON 30TH JUNE:

| | | YEAR ENDED 30 TH JUNE | YEAR ENDED 30 TH JUNE | YEAR ENDED 30 TH JUNE | YEAR ENDED 30 TH JUNE | PERIOD ENDED 30 TH JUNE | YEAR ENDED 30 TH SEPTEMBER | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
| Cost of sales as % of sales | % | 89.31 | 85.37 | 87.70 | 86.67 | 85.60 | 86.86 | 88.61 | 84.14 | 84.20 | 76.00 | 90.09 | 87.40 |
| Gross profit a s% of sales | % | 10.69 | 14.63 | 12.30 | 13.33 | 14.40 | 13.14 | 11.39 | 15.86 | 15.80 | 24.00 | 9.91 | 12.62 |
| Operating profit as % of sales | % | 10.83 | 15.08 | 12.84 | 10.79 | 11.07 | 9.44 | 5.49 | 8.83 | 8.68 | 17.17 | 4.43 | 5.60 |
| Net profit /)lss) as % of sales | % | 0.04 | 3.56 | 4.00 | 1.12 | 7.99 | 9.14 | 6.50 | 6.38 | 6.25 | 13.29 | 1.91 | 2.81 |
| Share holders' equity (millions) | Rs. | 468.86 | 484.29 | 441.11 | 393.61 | 398.86 | 324.71 | 244.15 | 212.38 | 178.38 | 163.71 | 115.39 | 121.73 |
| Pre tax profit to equity | % | 1.12 | 17.42 | 14.66 | 19.02 | 16.40 | 29.91 | 21.68 | 22.78 | 26.98 | 60.02 | 13.44 | 18.00 |
| After tax profit to equity | % | 0.21 | 13.44 | 14.49 | 4.23 | 18.88 | 24.81 | 19.74 | 20.09 | 20.50 | 52.93 | 9.68 | 14.80 |
| Sales to Capital employed ratio | | 2.37 | 1.77 | 1.46 | 0.62 | 1.03 | 1.31 | 1.74 | 2.52 | 2.73 | 3.14 | 4.28 | 2.94 |
| Gross profit to Capital employed | % | 25.37 | 25.94 | 17.95 | 21.54 | 13.94 | 17.22 | 19.76 | 40.02 | 43.17 | 75.44 | 42.47 | 37.09 |
| Pre tax profit to Capital employed | % | 0.51 | 8.18 | 5.90 | 8.17 | 6.72 | 11.97 | 11.26 | 16.08 | 17.07 | 41.78 | 8.21 | 10.06 |
| After tax profit to Capital employed | % | 0.10 | 6.31 | 5.84 | 1.82 | 7.73 | 9.93 | 10.26 | 14.19 | 12.97 | 36.85 | 5.92 | 8.27 |
| Earning per share-Pretax | Rs. | 0.48 | 7.71 | 5.93 | 6.84 | 5.98 | 8.87 | 4.83 | 4.42 | 4.40 | 8.97 | 1.42 | 2.50 |
| Earning per share-after tax | Rs. | 0.09 | 5.94 | 5.84 | 1.52 | 6.88 | 7.36 | 4.40 | 3.90 | 3.34 | 7.91 | 1.02 | 2.04 |
| Dividend to Capital: | | | | | | | | | | | | | |
| Cash | % | 7.50 | 15.00 | 20.00 | 15.00 | 20.00 | 20.00 | 15.00 | 15.00 | 20.00 | 35.00 | 20.00 | 20.00 |
| Bonus | % | - | - | - | - | - | - | - | - | - | 25.00 | - | - |
| Break up value per share | Rs. | 42.82 | 44.23 | 40.28 | 35.95 | 36.43 | 29.65 | 22.30 | 19.40 | 16.29 | 14.95 | 13.17 | 13.91 |
| Debt equity ratio | % | 54.19 | 53.03 | 59.73 | 57.43 | 59.41 | 59.98 | 48.00 | 29.38 | 36.74 | 30.38 | 37.37 | 43.25 |
| Current ratio | % | 1.01 | 1.00 | 1.08 | 1.00 | 1.01 | 1.12 | 1.02 | 1.02 | 1.07 | 1.03 | 1.00 | 1.05 |
| Acid ratio | % | 0.36 | 0.33 | 0.62 | 0.42 | 0.40 | 0.42 | 0.72 | 0.82 | 0.94 | 0.91 | 0.80 | 0.94 |
| Total debt as to % of total assets | % | 74.32 | 73.19 | 73.88 | 70.15 | 70.62 | 74.63 | 75.67 | 70.39 | 73.30 | 72.85 | 82.03 | 80.35 |
| Stocks as to % of sales | % | 25.28 | 32.37 | 20.63 | 16.84 | 28.00 | 28.97 | 19.32 | 10.32 | 5.49 | 5.54 | 10.81 | 5.26 |

# Pattern of Shareholding

## As at 30th June, 2009

| S # | | Name | Total Shares | Percentage |
|---|---|---|---|---|
| 1) | | ***ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES*** | | |
| | i) | M/S. NAGINA COTTON MILLS LTD. | 2,856,995 | 26.09 |
| | ii) | M/S. HAROON OMER (PVT) LTD. | 512,000 | 4.68 |
| | iii) | M/S. MONELL (PVT) LTD. | 631,350 | 5.77 |
| | iv) | M/S. ICARO (PVT) LTD. | 553,625 | 5.06 |
| | v) | M/S. ARH (PVT) LTD. | 628,400 | 5.74 |
| 2) | | ***NIT and ICP*** | | |
| | i) | NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT. | 706,880 | 6.46 |
| | ii) | NBP TRUSTEE - NI(U)T (LOC) FUND | 728,146 | 6.65 |
| | | IDBP (ICP UNIT) | 200 | 0.00 |
| 3) | | ***DIRECTOR CEO AND THEIR SPOUSE AND MINOR CHILDREN.*** | | |
| | i) | MR. SHAIKH ENAM ELLAHI | 131,350 | 1.20 |
| | ii) | MR. SHAHZADA ELLAHI SHAIKH | 900,350 | 8.22 |
| | iii) | MR. SHAUKAT ELLAHI SHAIKH | 904,050 | 8.26 |
| | iv) | MR. SHAFQAT ELLAHI SHAIKH | 900,350 | 8.22 |
| | v) | MR. S.M. YUSUF | 825 | 0.01 |
| | vi) | MR. SYED MOHSIN GILANI | 500 | 0.00 |
| | vii) | MR. JAMAL NASIM (Nominee NIT) | - | - |
| | viii) | MRS. HUMERA SHAHZADA | 800 | 0.01 |
| | ix) | MRS. MONA SHAUKAT | 800 | 0.01 |
| | x) | MRS. SHAISTA SHAFQAT | 800 | 0.01 |
| 4) | | ***EXECUTIVES*** | Nil | Nil |
| 5) | | ***PUBLIC SECTOR COMPANIES & CORPORATIONS*** | | |
| | i) | PAKISTAN KUWAIT INVESTMENT CO. (PVT) LTD. | 148,200 | 1.35 |
| | ii) | LAHORE STOCK EXCHANGE (G) LTD. | 1,125 | 0.01 |
| 6) | | ***BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS*** | Nil | Nil |
| | | ***GENERAL PUBLIC (325 Shareholders)*** | 1,343,254 | 12.27 |
| | | **Shareholders of the Company 344 Total:-** | **10,950,000** | **100.00** |
| 7) | | ***SHAREHOLDERS HOLDING 10% OR MORE*** | | |
| | i) | M/S. NAGINA COTTON MILLS LTD. | 2,856,995 | 26.09 |

**Note:-**

M/s. Nagina Cotton Mils Ltd., had distributed 3,740,000 ordinary shares of M/s. Ellcot Spinning Mills Ltd., among its members, out of which 116,400 ordinary shares have yet to be transferred by the members of M/s. Nagina Cotton Mills Ltd., These shares have been shown under the head “General Public”.

Russell Bedford

Rahman Sarfaraz Rahim
Iqbal Rafiq
*Chartered Accountants*

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Lahore.

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## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIENCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **ELLCOT SPINNING MILLS LIMITED** ("the Company") to comply with the listing regulation No. 35 of the Karachi Stock Exchange (Guarantee) Limited and the chapter XI of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further Sub- Regulations (xiii) of Listing Regulations No 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the company to place before the board of directors for their consideration and approval related party transaction distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the code of corporate governance for the year ended June 30, 2009.

Rahman Sarfaraz Rahim Iqbal Rafiq.
**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**
***Chartered Accountants***
**Engagement Partner:** ***IRFAN RAHMAN MALIK***

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
CHARTERED ACCOUNTANTS

**Date: September 29, 2009**
**Place:** ***LAHORE***

Russell Bedford

Rahman Sarfaraz Rahim
Iqbal Rafiq
*Chartered Accountants*

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## Auditors' Report to the Members

We have audited the annexed balance sheet of **ELLCOT SPINNING MILLS LIMITED** ("the Company") as at June 30, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that-

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984.

b) in our opinion–

   i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii. the expenditure incurred during the year was for the purpose of the Company's business; and

   iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980.), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that ordinance.

Rahman Sarfaraz Rahim Iqbal Rafiq

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
***Chartered Accountants***
**Engagement Partner:** ***IRFAN RAHMAN MALIK***

**Date: September 29, 2009**
**Place:** ***LAHORE***

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ CHARTERED ACCOUNTANTS

# BALANCE SHEET
## AS AT JUNE 30, 2009

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| Share capital and reserves | | | |
| Issued, subscribed and paid-up capital | *7* | 109,500,000 | 109,500,000 |
| Capital reserves | *8* | 7,760,000 | 7,760,000 |
| Unappropriated profit | | 351,600,447 | 367,028,496 |
| | | 468,860,447 | 484,288,496 |
| Non-current liabilities | | | |
| Long term finances - secured | *9* | 389,700,720 | 420,323,812 |
| Liabilities against assets subject to finance lease | *10* | 17,993,384 | 568,594 |
| Employees retirement benefits | *11* | 15,531,673 | 12,413,722 |
| Deferred taxation | *12* | 41,414,079 | 38,388,681 |
| | | 464,639,856 | 471,694,809 |
| Current liabilities | | | |
| Current portion of non-current liabilities | *13* | 146,894,288 | 125,961,908 |
| Short-term borrowings - secured | *14* | 630,444,687 | 647,875,502 |
| Trade and other payables | *15* | 73,708,533 | 51,184,833 |
| Mark-up accrued on borrowings | *16* | 41,133,496 | 25,487,089 |
| | | 892,181,004 | 850,509,332 |
| Contingencies and commitments | *17* | - | - |
| | | 1,825,681,307 | 1,806,492,637 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | *18* | 904,722,345 | 956,088,042 |
| Capital work in progress | *19* | 13,757,840 | 1,268,031 |
| Long term deposits | *20* | 5,115,190 | 1,657,190 |
| | | 923,595,375 | 959,013,263 |
| Current assets | | | |
| Stores, spares and loose tools | *21* | 30,791,055 | 26,593,098 |
| Stock in trade | *22* | 583,005,420 | 565,470,246 |
| Trade receivables | *23* | 185,808,914 | 145,491,836 |
| Advances, prepayments and other receivables | *24* | 64,914,699 | 44,415,008 |
| Current taxation | | 21,230,280 | 11,865,719 |
| Cash and bank balances | *25* | 16,335,564 | 53,643,467 |
| | | 902,085,932 | 847,479,374 |
| | | 1,825,681,307 | 1,806,492,637 |

*The annexed notes 1 to 46 form an integral part of these financial statements.*

Lahore: September 29, 2009

**Shahzada Ellahi Shaikh**
Director

**Shafqat Ellahi Shaikh**
Mg. Director (Chief Executive)

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 30 JUNE 2009

| | Note | June 30, 2009<br>Rupees | June 30, 2008<br>Rupees |
|---|---|---|---|
| Sales - net | 26 | 2,427,535,620 | 1,828,932,219 |
| Cost of sales | 27 | 2,167,920,720 | 1,561,408,401 |
| Gross Profit | | 259,614,900 | 267,523,818 |
| Other operating income | 28 | 3,339,605 | 8,223,937 |
| | | 262,954,505 | 275,747,755 |
| Distribution cost | 29 | 25,501,556 | 39,223,949 |
| Administrative expenses | 30 | 46,825,741 | 36,337,871 |
| Other operating expenses | 31 | 5,264,743 | 21,124,160 |
| | | 77,592,040 | 96,685,980 |
| Results from operating activities | | 185,362,465 | 179,061,775 |
| Finance cost | 32 | 180,108,142 | 94,675,001 |
| Profit before taxation | | 5,254,323 | 84,386,774 |
| Taxation | 33 | 4,257,372 | 19,309,675 |
| Profit after taxation | | 996,951 | 65,077,099 |
| Earning per share | 34 | 0.09 | 5.94 |

*The annexed notes 1 to 46 form an integral part of these financial statements.*

Lahore: September 29, 2009

**Shahzada Ellahi Shaikh**
Director

**Shafqat Ellahi Shaikh**
Mg. Director (Chief Executive)

NAGINA
NAGINA GROUP

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2009

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 35 | 234,064,207 | (46,873,092) |
| Finance cost paid | | (164,461,735) | (101,126,073) |
| Taxes paid | | (10,596,535) | (8,486,237) |
| Employee retirement benefits paid | | (6,383,497) | (4,391,036) |
| Workers' Profit Participation Fund paid | | (4,440,367) | (3,408,612) |
| Refund / (Payment) of sales tax | | 2,249,008 | (2,099,182) |
| Dividend paid | | (16,220,492) | (21,622,907) |
| Net cash flow from operating activities | | 34,210,589 | (188,007,139) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Capital expenditure | | (37,007,415) | (82,573,927) |
| Proceeds from disposal of property, plant and equipment | | 966,000 | 2,654,000 |
| Proceeds from sale of short term investments | | - | 138,783,597 |
| Long term deposits placed | | (3,458,000) | - |
| Net cash used in investing activities | | (39,499,415) | 58,863,670 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Repayment of liabilities against assets subject to finance lease | | (2,759,800) | (2,659,907) |
| Repayment of long term finances | | (111,828,462) | (105,533,832) |
| Long term finances obtained | | 100,000,000 | - |
| Net increase in short term borrowings | | (17,430,815) | 176,637,273 |
| Net cash flow from financing activities | | (32,019,077) | 68,443,534 |
| Net increase in cash and cash equivalents | | (37,307,903) | (60,699,935) |
| Cash and cash equivalents at the beginning of the year | | 53,643,467 | 114,343,402 |
| Cash and cash equivalents at the end of the year | 36 | 16,335,564 | 53,643,467 |

*The annexed notes 1 to 46 form an integral part of these financial statements.*

Lahore: September 29, 2009

**Shahzada Ellahi Shaikh**
Director

**Shafqat Ellahi Shaikh**
Mg. Director (Chief Executive)

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2009

| | Share capital | Capital reserves | Unappropriated profit | Total equity |
|---|---|---|---|---|
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| As at July 01, 2007 | 109,500,000 | 7,760,000 | 323,851,397 | 441,111,397 |
| Net profit for the year | - | - | 65,077,099 | 65,077,099 |
| Final dividend @ Rs. 2.0 per ordinary share for the year ended June 30, 2007 | - | - | (21,900,000) | (21,900,000) |
| As at July 01, 2008 | 109,500,000 | 7,760,000 | 367,028,496 | 484,288,496 |
| Net profit for the year | - | - | 996,951 | 996,951 |
| Final dividend @ Rs. 1.5 per ordinary share for the year ended June 30, 2008 | - | - | (16,425,000) | (16,425,000) |
| As at June 30, 2009 | 109,500,000 | 7,760,000 | 351,600,447 | 468,860,447 |

*The annexed notes 1 to 46 form an integral part of these financial statements.*

Lahore: September 29, 2009

**Shahzada Ellahi Shaikh**
Director

**Shafqat Ellahi Shaikh**
Mg. Director (Chief Executive)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1 REPORTING ENTITY

Ellcot Spinning Mills Limited ("the Company") was incorporated in Pakistan on 22 December 1988 as a Public Limited Company under the Companies Ordinance, 1984. The registered office of the Company is situated at Nagina House, 91-B-1, M.M. Alam Road, Gulberg-III, Lahore. The Company is currently listed on Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The principal activity of the Company is manufacturing and sale of yarn. The Company is also engaged in generation and sale of electricity under a license from National Electric Power Regulatory Authority (NEPRA). The Mill is located at District Kasur in the Province of Punjab.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

These accounts have been prepared under the historical cost convention except for certain financial assets at fair value and employees retirement benefits at present value. In these financial statements, except for the cash flow statement, all transactions have been accounted for on accrual basis.

2.3 Judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

2.3.1 Depreciation method, rates and useful lives of property, plant and equipment

The management of the Company reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Company expects to derive from that item.

2.3.2 Recoverable amount of assets / cash generating units

The management of the Company reviews carrying amounts of its assets and cash generating units for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

2.3.3 Employees retirement benefits

The present value of defined benefit obligation is based on actuarial valuation done by independent actuaries after every three years. The valuation requires 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.

2.3.4 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 where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

2.3.5 Provisions

Provisions are based on best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Company would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

2.4 Functional currency

These financial statements have been prepared in Pak Rupees which is the Company's functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

3.1 Property, plant and equipment

3.1.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is measured at cost less accumulated impairment losses. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition.

Parts of an item of property, plant and equipment having different useful lives are recognized as separate items.

Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the Company and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

3.1.2 Depreciation

The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each item of property, plant and equipment using rates specified in note 18 to the financial statements.

Depreciation on additions to property, plant and equipment is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.

Depreciation method, useful lives and residual values are reviewed at each reporting date.

3.1.3 De-recognition

An item of property, plant and equipment is de-recognized when permanently retired from use. Any gain or loss on disposal of property, plant and equipment is recognized in profit or loss.

3.2 Leased assets

Leases in terms of which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each asset using rates specified in note 18 to the financial statement.

Leases that do not transfer substantially all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight line basis over the lease term.

3.3 Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the expenditures on material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of property, plant and equipment. These costs are transferred to property, plant and equipment as and when related items become available for intended use.

3.4 Stores, spares and loose tools

These are generally held for internal use and are valued at cost. Cost is determined on the basis of moving average except for items in transit, which are valued at invoice price plus related expenses incurred up to the reporting date.

3.5 Stock in trade

These are valued at lower of cost and net realizable value, with the exception of stock of waste which is value at net realizable value. Cost is determined using the following basis:

| | |
|---|---|
| Raw material | First In First Out |
| Work in process | Average manufacturing cost |
| Finished goods | Average manufacturing cost |
| Stock in transit | Invoice price plus related expense incurred up to the reporting date |

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

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

3.6 Ordinary share capital

Ordinary share capital is recognized as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as deduction from equity.

3.7 Employee benefits

3.7.1 Short term employee benefits

The Company recognizes the undiscounted amount of short term employee benefits to be paid in exchange for services rendered by employees as a liability after deducting amount already paid and as an expense in profit or loss unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. If the amount paid exceeds the undiscounted amount of benefits, the excess is recognized as an asset to the extent that the prepayment would lead to a reduction in future payments or cash refund.

3.7.2 Post employment benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service. Liability is adjusted annually to cover the obligation and the adjustment is charged to profit or loss. The determination of obligation under the scheme requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration, expected remaining useful lives of employees and discount rates. These assumptions are determined by independent appraisers after every three years.

The amount recognized in the balance sheet represents the present value of defined benefit obligation less fair value of plan assets as adjusted for unrecognized actuarial gains and losses.

Actuarial gains and losses are recognized using the "10% corridor approach" as set out by International Accounting Standard 19 - Employee Benefits.

Details of scheme are referred to in note 11 to the financial statements.

3.8 Financial instruments

3.8.1 Classification

The Company classifies each of its financial assets and liabilities into one of the categories provided under International Accounting Standard - 39 "Financial Instruments, *Recognition and Measurement"* .The classifications depend on the purpose for which the financial assets and liabilities are acquired or incurred. Management of the Company determines the classification of its financial assets and liabilities at initial recognition. As at the reporting date, all financial assets and financial liabilities of the Company are classified as "Loans and Receivables" and "Financial Liabilities at Amortised Cost" respectively. The Company does not hold financial assets and liabilities in any of the other categories as at the reporting date.

*Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Assets in this category are presented as current assets except for maturities greater than twelve months from the reporting date, where these are presented as non-current assets. The Company's loans and receivables comprise advances, deposits, trade and other receivables, and cash and cash equivalents.

*Financial liabilities at amortized cost*

Non-derivative financial liabilities that are not financial liabilities at fair value through profit or loss are classified as financial liabilities at amortized cost. Financial liabilities in this category are presented as non-current liabilities except for maturities greater than twelve months from the reporting date where these are presented as non-current liabilities. The Company's financial liabilities at amortized cost comprise trade and other payables, and borrowings.

3.8.2 Recognition

A financial instrument is recognized when the Company becomes a party to the contractual provisions of the instrument.

3.8.3 Measurement

The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

3.8.4 De-recognition

A financial liability is de-recognized when the Company's obligations specified in the contract expire or are discharged or cancelled. Gains or losses arising on de-recognition are recognized in profit or loss.

3.8.5 Off-setting

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

3.8.6 Regular way purchases and sales of financial assets

Regular way purchases and sales of financial assets are recognized on trade dates.

3.9 Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value recognized in the profit or loss over the period of the borrowings on an effective interest basis.

3.10 Trade and other payables

Trade creditors and other payables that meet the definition of financial liabilities are initially recognized at cost, being fair value at the date the liability is incurred. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, with interest recognized in profit or loss. Advances from customers, payables created as a result of statutory requirements such as income taxes, constructive obligations and other non-financial liabilities are carried at cost.

3.11 Trade and other receivables

Trade and other receivables that meet the definition of financial assets are initially recognized at cost, being fair value at the date the asset is acquired. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method, less accumulated impairment losses, with interest recognized in profit or loss. Advances to suppliers, receivables created as a result of statutory requirements such as income taxes and other non-financial assets are carried at cost.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at banks. Cash and cash equivalents are carried at cost.

3.13 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other operating income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risks and rewards vary depending on the individual terms of the contract of sale. For local sales transfer usually occurs on dispatch of goods to customers. For export sales transfer occurs upon loading the goods onto the relevant carrier.

Revenue from sale of electricity is recognised on transmission of electricity to the customer.

Export rebate is recognized at the same time when revenue from export sales is recognized.

Return on bank deposits is recognized as and when accrued on time proportion basis.

3.14 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 costs are recognized in profit or loss as incurred.

3.15 Taxation

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the amount of tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to the tax payable in respect of previous years. Provision for current tax is based on current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.

Deferred tax is accounted for using the balance sheet approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In this regard, the effects on deferred taxation of the portion of income that is 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 tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all net taxable temporary differences. A deferred tax asset is recognized for net deductible temporary differences to the extent that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized for timing differences that are not expected to reverse and for the differences arising from the initial recognition of goodwill and initial recognition of assets and liabilities in a transaction that is not a business combination and that at the time of transaction affects neither the accounting nor the taxable profit.

3.16 Earnings per share ("EPS")

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic EPS by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares and post-tax effect of changes in profit or loss attributable to ordinary shareholders of the Company that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

3.17 Foreign currency transactions and balances

Transactions in foreign currency are translated to the functional currency of the Company using exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency at exchange rate at the date the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are translated to functional currency at exchange rate at the date of initial recognition. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss.

3.18 Impairment

3.18.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss in respect of a financial asset measured at fair value is determined by reference to that fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in equity. Any cumulative loss in respect of an available for sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the financial asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

3.18.2 Non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognized if the carrying amount of the assets or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated to reduce the carrying amounts of the assets in a unit on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used in determine the recoverable amount. An impairment loss is reversed only to that extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

3.19 Provisions and contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision is recognized at an amount that is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where outflow of resources embodying economic benefits is not probable, a contingent liability is disclosed, unless the possibility of outflow is remote.

3.20 Dividend distribution to ordinary shareholders

Dividend distribution to the ordinary shareholders is recognized as a deduction from unappropriated profit in statement of changes in equity and as a liability in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

3.21 Segment reporting

A segment is a distinguishable component of a company that is engaged in providing related procedures or services (business segment) or in providing products and services in a particular economic environment (geographical segment) which is subject to risk and returns that are different from those of other segments. Segment information is presented in respect of the Group's business segments only since there are no reportable geographical segments.

Inter segment pricing is based on arm's length basis

Segment results, assets and liabilities include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

3.22 Transactions and balances with related parties

Related party transactions are carried out on an arm's length basis. Pricing for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller. The accounting methods adopted for various types of transactions and balances with related parties are as follows:

3.22.1 Sale of goods and provision of services

Revenue from sale of goods and provision of services to related parties is recognized in accordance with the revenue recognition policy of the Company for such transactions. Receivables against sale of goods and provision for services outstanding at the reporting date are carried at amortized cost in accordance with the accounting policy of the Company for such balances.

3.22.2 Purchases of goods and services

Purchases of goods and services from related parties are recognized at actual cost to the Company. Payables against purchases from related parties outstanding at the reporting date are carried at amortized cost in accordance with the accounting policy of the Company for such balances.

3.22.3 Compensation of key management personnel

The cost of short term and post employment benefits to key management personnel and resulting balances outstanding at reporting date are accounting for in accordance with the accounting policy of the Company for employee benefits.

3.22.4 Dividend distribution

Dividend distribution to related parties having shareholding in the Company is recognized in accordance with the accounting policy of the Company for dividend distribution to ordinary shareholders.

4 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The International Accounting Standards Board has published following standards, interpretations and amendments that are not yet effective and have not been applied in preparing these financial statements.

IFRS 8 - Operating Segments

This standard introduces the "management approach" to segment reporting. IFRS 8 is effective for periods beginning on or after January 01, 2009. However, being irrelevant to the Company's operations, it is not expected to have any impact on the Company's financial statements.

IAS 23 - Borrowing Costs (Revised 2007)

The revised standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. The revised IAS 23 is effective for periods beginning on or after January 01, 2009, however this would not constitute a change in accounting policy since the Company's accounting policy for borrowing costs is already in accordance with the requirements of the revised standard.

IAS 1 - Presentation of Financial Statements (Revised 2007)

The revised standard introduces the term "Total Comprehensive Income", which represents changes in equity during a period other than those resulting from transactions with owners in their capacity as owners. The revised standard is effective for periods beginning on or after January 01, 2009. Subject to removal of inconsistencies between provisions of Companies Ordinance, 1984 (including Rules and Regulations made thereunder) and IAS 1, the standard will have impact on the presentation of Company's financial statements for the year ending June 30, 2010.

Amendments to IAS 32 - Financial Instruments: *Presentation* and IAS 1 - Presentation of Financial Statements, regarding Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. These amendments are effective for periods beginning on or after January 01, 2009 with retrospective application required. However these are not expected to have any impact on the Company's Financial Statements.

Amendments to IFRS 2 - Share Based Payments regarding vesting conditions and cancellations.

These amendments clarify the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. These amendments are effective for periods beginning on or after January 01, 2009 with retrospective application. No impact is expected on the financial statements of the Company.

IFRIC 13 *Customer Loyalty Programmes*

This interpretation addresses accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is effective for the periods beginning on or after 01 January 2009. However, being irrelevant to the Company's operations, it is not expected to have any impact on the Company's financial statements.

5 ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS.

The Company has adopted IFRS 7 - Financial Instruments, *Disclosures* for the first time as at the reporting date. The adoption of this standard has had impact on the financial statements of the Company to the extent of disclosures only. The disclosures under the standard have been presented with complete comparative information.

The company has also applied for the first time IFRS - 8 as at the reporting date which has become applicable due to identification of activities which fall within the criteria specified by the standard. The application of the standard has had impact on the financial statements of the company to the extent of additional segment reporting and disclosures including comparative information.

IAS 29 - Financial Reporting in Hyperinflationary Economies has been notified by the Securities and Exchange Commission of Pakistan under Section 234(3) of the Companies Ordinance, 1984, but the standard would not have any impact on the Company's financial statements in view of the fact that the primary economic environment in which the Company operates is not hyperinflationary.

6 DETERMINATION OF FAIR VALUES

A number of Company's accounting policies require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values of various assets and liabilities is determined as follows:

6.1 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future net cash inflows, discounted at the market rate of interest at the reporting date.

6.2 Trade and other payable

The fair value of trade and other payables is estimated as the present value of future net cash outflows, discounted at the market rate of interest at the reporting date.

6.3 Borrowings

The fair value of borrowings is determined using effective interest method.

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| **7 SHARE CAPITAL** | | |
| Authorized share capital | | |
| 20,000,000 (2008: 20,000,000) ordinary shares of Rs. 10 each | 200,000,000 | 200,000,000 |
| Issued, subscribed and paid-up capital | | |
| Ordinary shares of Rs. 10 each | | |
| 8,760,000 (2008: 8,760,000) shares issued fully paid in cash | 87,600,000 | 87,600,000 |
| 2,190,000 (2008: 2,190,000) shares issued as fully paid bonus shares | 21,900,000 | 21,900,000 |
| | 109,500,000 | 109,500,000 |

8 CAPITAL RESERVE

On September 30, 2001, the net assets of Power Unit II of Ellahi Electric Company Limited were merged into the Company. Capital reserve represents the difference between the book value of shares held by the Company in Ellahi Electric Company Limited as at the date of merger and break-up value of those shares at that date.

9 LONG TERM FINANCES

These represent long term finances utilized under mark-up arrangements from banking companies.

| | *Note* | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| Demand Finances ("DF") | | | |
| DF- I | *9.1* | 144,864,058 | 193,152,076 |
| DF- II | *9.2* | 2,616,487 | 3,488,648 |
| DF- III | *9.3* | 169,979,746 | 188,866,384 |
| DF- IV | *9.4* | 100,000,000 | - |
| | | 417,460,291 | 385,507,108 |
| Long Term Finances for Export Oriented Projects ("LTFEOP") | | | |
| LTFEOP - I | *9.5* | 7,039,680 | 8,447,616 |
| LTFEOP - II | *9.6* | 22,240,271 | 26,688,327 |
| LTFEOP - III | *9.7* | 29,043,122 | 33,192,139 |
| LTFEOP - IV | *9.8* | 10,348,000 | 12,935,000 |
| | | 68,671,073 | 81,263,082 |
| Term Finances | | | |
| TF - I | *9.9* | 46,784,456 | 77,974,092 |
| | | 532,915,820 | 544,744,282 |
| Current maturity presented under current liabilities | *13* | (143,215,100) | (124,420,470) |
| | | 389,700,720 | 420,323,812 |

9.1 DF - I has been obtained from United Bank Limited to finance the expansion of spinning unit of the Company . The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at six months KIBOR plus 0.7 % (2008: six months KIBOR plus 0.7 %) per annum, payable semi-annually. The finance is repayable in ten equal semi-annual installments with the first installment due from October 28, 2007.

9.2 DF - II has been obtained from United Bank Limited to finance the expansion of spinning unit of the Company. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at six months KIBOR plus 0.7 % (2008: six months KIBOR plus 0.7 %) per annum, payable quarterly. The finance is repayable in ten equal semi-annual installments with the first installment due from August 04, 2007.

9.3 DF - III has been obtained from United Bank Limited to finance capital expenditure. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at six months KIBOR plus 1.5 % (2008: six months KIBOR plus 1.5 %) per annum. The finance is repayable in eight equal semi-annual installments with the first installment due from February 10, 2009.

9.4 DF - IV has been obtained from National Bank of Pakistan for financial restructuring. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at six months KIBOR plus 2.5 % per annum, payable semi-annually. The finance is repayable in eight equal semi-annual installments with the first installment due from June 30, 2010.

9.5 LTFEOP - I has been obtained from United Bank Limited as partial conversion of DF - I. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at 7 % (2008: 7 %) per annum, payable semi-annually. The finance is repayable in ten equal semi-annual installments with the first installment due from December 30, 2006.

9.6 LTFEOP - II has been obtained from United Bank Limited as partial conversion of DF - I. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at 7 % (2008: 7 %) per annum, payable semi-annually. The finance is repayable in ten equal semi-annual installments with the first installment due from December 30, 2006.

9.7 LTFEOP - III has been obtained from United Bank Limited as partial conversion of DF - II. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at 7 % (2008: 7 %) per annum, payable semi-annually. The finance is repayable in ten equal semi-annual installments with the first installment due from December 30, 2006.

9.8 LTFEOP - IV has been obtained from Bank Alfalah Limited as partial conversion of TF - I. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at 7 % (2008: 7 %) per annum, payable semi-annually. The finance is repayable in eight equal semi-annual installments with the first installment due from March 31, 2007.

9.9 TF - I has been obtained from Bank Alfalah Limited to finance capital expenditure. The finance is secured over land, building and machinery of the Company and personal guarantees of the directors of the Company. The finance carries mark-up at six months KIBOR plus 1.5 % (2008: six months KIBOR plus 1.5 %) per annum, payable semi-annually. The finance is repayable in eleven equal semi-annual installments with the first installment due from September 30, 2005.

9.10 For details of restriction on title, and assets pledged as security against borrowings, refer to note 41 to the financial statements

10 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | *Note* | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| Present value of minimum lease payments | | 21,672,572 | 2,110,032 |
| Current maturity presented under current liabilities | *13* | (3,679,188) | (1,541,438) |
| | | 17,993,384 | 568,594 |

10.1 This represents vehicles acquired under finance lease arrangements. Interest rate used as the discounting factor ranges from 13 % to 17 % (2008: 11.5 % to 13 %) per annum. Taxes, repairs, replacements and insurance costs are to be borne by the Company. Under the terms of agreement, the Company has an option to acquire the assets at the end of the respective lease term by adjusting the deposit amount against the residual value of the asset and intends to exercise the option.

10.2 The amount of future payments under the lease and the period in which these payments will become due are as follows:

| | Note | June 30, 2009 Rupees | June 30, 2008 Rupees |
|---|---|---|---|
| Not later than one year | | 6,741,416 | 1,691,808 |
| Later than one year but not later than five years | | 23,525,069 | 690,085 |
| Total future minimum lease payments | | 30,266,485 | 2,381,893 |
| Finance charge allocated to future periods | | (8,593,913) | (271,861) |
| Present value of future minimum lease payments | | 21,672,572 | 2,110,032 |
| Not later than one year | | (3,679,188) | (1,541,438) |
| Later than one year but not later than five years | | 17,993,384 | 568,594 |

11 EMPLOYEES RETIREMENT BENEFITS

The amounts recognized in the balance sheet are as follows:

| | Note | June 30, 2009 Rupees | June 30, 2008 Rupees |
|---|---|---|---|
| Present value of defined benefit obligation | *11.1* | 13,992,889 | 11,650,020 |
| Unrecognized actuarial gains | *11.2* | 1,538,784 | 763,702 |
| | | 15,531,673 | 12,413,722 |

11.1 Movement in present value of defined benefit obligation is as follows:

| | Note | June 30, 2009 Rupees | June 30, 2008 Rupees |
|---|---|---|---|
| As at beginning of the year | | 11,650,020 | 12,682,836 |
| Charged to profit or loss for the year | *11.3* | 9,501,448 | 4,121,922 |
| Benefits paid during the year | | (6,383,497) | (4,391,036) |
| Actuarial gain arising during the year | | (775,082) | (763,702) |
| As at end of the year | | 13,992,889 | 11,650,020 |

The present value of defined benefit obligation has been determined based on the following assumptions:

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| Discount rate | 12% | 12% |
| Expected rates of increase in salary | 11% | 11% |
| Expected average remaining working lives of employees | 14 years | 15 years |

11.2 Movement in unrecognized actuarial gain is as follows:

| | *Note* | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| As at beginning of the year | | 763,702 | - |
| Actuarial gain arising during the year | | 775,082 | 763,702 |
| Actuarial gain recognized during the year | *11.3* | - | - |
| As at end of the year | | 1,538,784 | 763,702 |

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Rupees* | *Rupees* |

11.3 Salaries, wages and other benefits include the following in respect of employees retirement benefits

| | | |
|---|---|---|
| Current service cost | 7,377,170 | 2,853,638 |
| Interest cost | 2,124,278 | 1,268,284 |
| | 9,501,448 | 4,121,922 |
| Actuarial gain recognized during the year | - | - |
| | 9,501,448 | 4,121,922 |

11.4 Historical information

| | June 30, 2009 | June 30, 2008 | June 30, 2007 | June 30, 2006 | Sept 30, 2005 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | 13,992,889 | 11,650,020 | 12,682,836 | 10,772,658 | 7,615,462 |
| Actuarial adjustment arising during the year | - | 6.56% | - | - | 6.77% |

The experience adjustment component of actuarial adjustment is impracticable to determine and thus has not been disclosed.

| | *Note* | June 30, 2009 | June 30, 2008 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |
| **12 DEFERRED TAXATION** | | | |
| Deferred tax liability on taxable temporary differences | *12.1* | 79,649,433 | 86,158,498 |
| Deferred tax asset on deductible temporary differences | *12.1* | (38,235,354) | (47,769,817) |
| Liability recognized in balance sheet | | 41,414,079 | 38,388,681 |

12.1 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Year ended June 30, 2009 | | | |
|---|---|---|---|---|
| | As at July 01, 2008 *Rupees* | Recognized in profit or loss *Rupees* | Recognized in equity *Rupees* | As at June 30, 2009 *Rupees* |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | 85,572,985 | (7,697,050) | - | 77,875,935 |
| Assets subject to finance lease | 585,513 | 1,187,985 | - | 1,773,498 |
| | 86,158,498 | (6,509,065) | - | 79,649,433 |
| Deferred tax assets | | | | |
| Employees retirement benefits | (2,623,741) | 101,184 | - | (2,522,557) |
| Unused tax losses | (45,146,076) | 9,433,279 | - | (35,712,797) |
| | (47,769,817) | 9,534,463 | - | (38,235,354) |
| | 38,388,681 | 3,025,398 | - | 41,414,079 |

| | Year ended June 30, 2008 | | | |
|---|---|---|---|---|
| | As at July 01, 2007 *Rupees* | Recognized in profit or loss *Rupees* | Recognized in equity *Rupees* | As at June 30, 2008 *Rupees* |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | 90,319,077 | (4,746,092) | - | 85,572,985 |
| Assets subject to finance lease | 390,933 | 194,580 | - | 585,513 |
| | 90,710,010 | (4,551,512) | - | 86,158,498 |
| Deferred tax assets | | | | |
| Employees retirement benefits | (2,374,896) | (248,845) | - | (2,623,741) |
| Unused tax losses | (60,048,734) | 14,902,658 | - | (45,146,076) |
| | (62,423,630) | 14,653,813 | - | (47,769,817) |
| | 28,286,380 | 10,102,301 | - | 38,388,681 |

| | *Note* | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **13 CURRENT MATURITY OF NON-CURRENT LIABILITIES** | | | |
| Long term finances | *9* | 143,215,100 | 124,420,470 |
| Liabilities against assets subject to finance lease | *10* | 3,679,188 | 1,541,438 |
| | | 146,894,288 | 125,961,908 |

**14 SHORT TERM BORROWINGS**

These represent short term finances utilized under mark-up arrangements from banking companies.

| | | | |
|---|---|---|---|
| Cash finance | *14.1* | 384,404,987 | 396,070,006 |
| Running finance | *14.1* | 20,988,788 | 67,411,170 |
| Foreign currency finance | *14.2* | 225,050,912 | 184,394,326 |
| | | 630,444,687 | 647,875,502 |

14.1 These facilities have been obtained from various commercial banks for working capital requirements and are secured over current assets of the Company, demand promissory notes and personal guarantees of the Directors of the Company. These facilities carry mark-up at rates ranging from 12.89 % to 17.59 % (2008: 10.09 % to 14.38 %) per annum, payable quarterly. These rates are based on floating KIBOR.

14.2 These facilities have been obtained from various commercial banks for import of raw material under foreign currency financing and discounting of foreign bills and are secured over current assets of the Company, lien on export documents and imported merchandise and personal guarantees of the Directors of the Company. These facilities carry mark-up at rates ranging from 3.16% to 5.71% (2008: 3.42 % to 6.56 %) per annum. These rates are based on floating LIBOR.

14.3 The aggregate available short term financing facilities amounts to Rs. 1,067 million (2008: Rs. 1,067 million) out which Rs. 437 million (2008: Rs. 419 million) remained unavailed.

14.4 For details of restriction on title, and assets pledged as security against borrowings, refer to note 41 to the financial statements.

| | Note | June 30, 2009<br>*Rupees* | June 30, 2008<br>*Rupees* |
|---|---|---|---|
| **15 TRADE AND OTHER PAYABLES** | | | |
| Trade creditors | | 24,430,569 | 8,886,534 |
| Accrued liabilities | | 39,123,030 | 32,536,480 |
| Advances from customers | | 7,137,373 | 2,754,175 |
| Workers' Profit Participation Fund | *15.1* | 333,250 | 4,491,127 |
| Workers' Welfare Fund | | 112,996 | - |
| Unclaimed dividend | | 723,822 | 519,314 |
| Other payables | | 1,847,493 | 1,997,203 |
| | | 73,708,533 | 51,184,833 |

15.1 Workers' Profit Participation Fund ("WPPF")

| | | |
|---|---|---|
| As at beginning of the year | 4,491,127 | 3,458,320 |
| Interest on funds utilized by the Company | 574,951 | 302,034 |
| Charged to profit or loss | 282,490 | 4,441,419 |
| Paid during the year | (5,015,318) | (3,710,646) |
| As at end of the year | 333,250 | 4,491,127 |

| | June 30, 2009<br>*Rupees* | June 30, 2008<br>*Rupees* |
|---|---|---|
| **16 MARK-UP ACCRUED ON BORROWINGS** | | |
| Long term finances | 18,523,988 | 15,677,138 |
| Liabilities against assets subject to finance lease | 448,762 | 5,270 |
| Short term borrowings | 22,160,746 | 9,804,681 |
| | 41,133,496 | 25,487,089 |

17 CONTINGENCIES AND COMMITMENTS

Contingencies

Various suits have been filed by ex-employees of the Company for termination benefits against the Company in labour courts. Amount involved is approximately Rs. 148,000 which may become payable if the cases are decided against the Company, however no provision has been made in this respect as the management is confident that these suits will be decided in the favour of the Company.

| | June 30, 2009<br>*Rupees* | June 30, 2008<br>*Rupees* |
|---|---|---|
| Guarantees issued by banks on behalf of the Company | 21,845,300 | 19,000,000 |
| Bills discounted | 117,584,437 | 84,521,104 |

For contingencies related to tax matters, refer to note 33.

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Rupees* | *Rupees* |
| Commitments | | |
| Irrevocable letters of credit for import of: | | |
| plant and machinery | - | 11,309,350 |
| stores, spares and loose tools | 595,685 | 3,121,650 |
| raw materials | 117,670,696 | 133,931,104 |
| | 118,266,381 | 148,362,104 |
| Fixed capital expenditure | 987,276 | 932,163 |
| Payments under operating lease | | |
| not later than one year | 240,000 | 240,000 |
| later than one year but not later than five years | - | - |
| | 240,000 | 240,000 |

18 PROPERTY, PLANT AND EQUIPMENT

| | Year ended June 30, 2009 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost | | | | | | Depreciation | | | | Net book |
| | As at July 01, 2008 *Rupees* | Additions *Rupees* | Disposals *Rupees* | Transfers *Rupees* | As at June 30, 2009 *Rupees* | Rate | As at July 01, 2008 *Rupees* | Adjustment *Rupees* | For the year *Rupees* | As at June 30, 2009 *Rupees* | value as at June 30, 2009 *Rupees* |
| Assets owned by the Company | | | | | | | | | | | |
| Freehold land | 6,093,568 | - | - | - | 6,093,568 | | - | - | - | - | 6,093,568 |
| Buildings on freehold land | | | | | | | | | | | |
| Mills | 173,401,446 | - | - | - | 173,401,446 | 10% | 68,749,168 | - | 10,465,228 | 79,214,396 | 94,187,050 |
| Other factory buildings | 50,571,523 | - | - | - | 50,571,523 | 5% | 16,627,106 | - | 1,697,221 | 18,324,327 | 32,247,196 |
| Non- factory buildings | 4,331,455 | - | - | - | 4,331,455 | 10% | 3,073,237 | - | 125,822 | 3,199,059 | 1,132,396 |
| Plant and machinery | 1,218,436,638 | 12,482,337 | - | 4,659,960 | 1,235,578,935 | 10% | 478,833,114 | - | 74,912,179 | 553,745,293 | 681,833,642 |
| Electric installation and equipment | 61,876,928 | - | - | - | 61,876,928 | 10% | 26,511,958 | - | 3,536,498 | 30,048,456 | 31,828,472 |
| Factory equipment | 6,582,763 | - | - | - | 6,582,763 | 10% | 2,710,699 | - | 387,206 | 3,097,905 | 3,484,858 |
| Laboratory equipment | 11,157,359 | - | - | - | 11,157,359 | 10% | 2,861,327 | - | 829,603 | 3,690,930 | 7,466,429 |
| Fire fighting equipment | 1,846,665 | - | - | - | 1,846,665 | 10% | 1,029,541 | - | 81,712 | 1,111,253 | 735,412 |
| Office equipment | 10,941,846 | 106,300 | - | - | 11,048,146 | 10% | 6,972,369 | - | 406,153 | 7,378,522 | 3,669,624 |
| Furniture and fixtures | 6,173,947 | - | - | - | 6,173,947 | 10% | 3,071,865 | - | 310,209 | 3,382,074 | 2,791,873 |
| Arms and ammunition | 763,013 | - | - | - | 763,013 | 10% | 386,444 | - | 37,657 | 424,101 | 338,912 |
| Vehicles | 16,872,838 | 466,574 | (3,598,965) | - | 13,740,447 | 20% | 7,837,367 | (2,748,686) | 1,752,503 | 6,841,184 | 6,899,263 |
| | 1,569,049,989 | 13,055,211 | (3,598,965) | 4,659,960 | 1,583,166,195 | | 618,664,195 | (2,748,686) | 94,541,991 | 710,457,500 | 872,708,695 |
| Assets subject to finance lease | | | | | | | | | | | |
| Vehicles | 9,412,370 | 915,465 | - | - | 10,327,835 | 20% | 3,710,122 | - | 1,155,708 | 4,865,830 | 5,462,005 |
| Plant and Machinery | - | - | - | 28,209,310 | 28,209,310 | 10% | - | - | 1,657,665 | 1,657,665 | 26,551,645 |
| | 1,578,462,359 | 13,970,676 | (3,598,965) | 32,869,270 | 1,621,703,340 | | 622,374,317 | (2,748,686) | 97,355,364 | 716,980,995 | 904,722,345 |

| | Year ended June 30, 2008 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost | | | | | | Depreciation | | | | Net book |
| | As at July 01, 2007 *Rupees* | Additions *Rupees* | Disposals *Rupees* | Transfers *Rupees* | As at June 30, 2008 *Rupees* | Rate | As at July 01, 2007 *Rupees* | Adjustment *Rupees* | For the year *Rupees* | As at June 30, 2008 *Rupees* | value as at June 30, 2008 *Rupees* |
| Assets owned by the Company | | | | | | | | | | | |
| Freehold land | 6,093,568 | - | - | - | 6,093,568 | | - | - | - | - | 6,093,568 |
| Buildings on freehold land | | | | | | | | | | | |
| Mills | 167,709,042 | - | - | 5,692,404 | 173,401,446 | 10% | 57,353,680 | - | 11,395,488 | 68,749,168 | 104,652,278 |
| Other factory buildings | 47,558,860 | - | - | 3,012,663 | 50,571,523 | 5% | 14,999,119 | - | 1,627,987 | 16,627,106 | 33,944,417 |
| Non- factory buildings | 4,331,455 | - | - | - | 4,331,455 | 10% | 2,852,735 | - | 220,502 | 3,073,237 | 1,258,218 |
| Plant and machinery | 1,154,828,383 | 62,787,232 | (5,646,667) | 6,467,690 | 1,218,436,638 | 10% | 405,219,596 | (4,113,007) | 77,726,525 | 478,833,114 | 739,603,524 |
| Electric installation and equipment | 60,602,588 | 1,274,340 | - | - | 61,876,928 | 10% | 22,687,657 | - | 3,824,301 | 26,511,958 | 35,364,970 |
| Factory equipment | 6,582,763 | - | - | - | 6,582,763 | 10% | 2,280,470 | - | 430,229 | 2,710,699 | 3,872,064 |
| Laboratory equipment | 3,193,821 | 7,963,538 | - | - | 11,157,359 | 10% | 2,419,106 | - | 442,221 | 2,861,327 | 8,296,032 |
| Fire fighting equipment | 1,846,665 | - | - | - | 1,846,665 | 10% | 938,750 | - | 90,791 | 1,029,541 | 817,124 |
| Office equipment | 10,378,329 | 563,517 | - | - | 10,941,846 | 10% | 6,551,009 | - | 421,360 | 6,972,369 | 3,969,477 |
| Furniture and fixtures | 6,054,951 | 118,996 | - | - | 6,173,947 | 10% | 2,731,611 | - | 340,254 | 3,071,865 | 3,102,082 |
| Arms and ammunition | 763,013 | - | - | - | 763,013 | 10% | 344,603 | - | 41,841 | 386,444 | 376,569 |
| Vehicles | 16,771,989 | 3,958,006 | (3,857,157) | - | 16,872,838 | 20% | 8,989,606 | (3,039,295) | 1,887,056 | 7,837,367 | 9,035,471 |
| | 1,486,715,427 | 76,665,629 | (9,503,824) | 15,172,757 | 1,569,049,989 | | 527,367,942 | (7,152,302) | 98,448,555 | 618,664,195 | 950,385,794 |
| Assets subject to finance lease | | | | | | | | | | | |
| Vehicles | 8,500,000 | 912,370 | - | - | 9,412,370 | 20% | 2,493,334 | - | 1,216,788 | 3,710,122 | 5,702,248 |
| | 1,495,215,427 | 77,577,999 | (9,503,824) | 15,172,757 | 1,578,462,359 | | 529,861,276 | (7,152,302) | 99,665,343 | 622,374,317 | 956,088,042 |

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18.1 Disposal of property, plant and equipment

| | Year ended June 30, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost *Rupees* | Accumulated depreciation *Rupees* | Net book value *Rupees* | Proceeds from disposal *Rupees* | Gain on disposal *Rupees* | Mode of disposal | Particulars of buyer |
| Vehicles | | | | | | | |
| Honda civic LXL - 6388 | 990,280 | 851,414 | 138,866 | 150,000 | 11,134 | Negotiation | Mazhar Farooq - Lahore |
| Toyota carola LRP - 2049 | 1,277,332 | 945,277 | 332,055 | 335,000 | 2,945 | Negotiation | Qaisar Abas - Lahore |
| Yamaha 100 LOY - 4633 | 56,000 | 53,111 | 2,889 | 16,000 | 13,111 | Negotiation | Shaukat Ali - Khanawal |
| Honda CD-70 LOZ - 6933 | 55,000 | 51,629 | 3,371 | 16,000 | 12,629 | Negotiation | Amjad Pervez - Sialkot |
| Honda CD-70 LXE - 9833 | 57,500 | 51,996 | 5,504 | 17,000 | 11,496 | Negotiation | Mamoor Khan - Kohat |
| Honda citi LZH - 5673 | 814,660 | 501,535 | 313,125 | 325,000 | 11,875 | Negotiation | Sultan Habeeb - Lahore |
| Yamaha 100 LXO - 4833 | 68,368 | 60,243 | 8,125 | 18,000 | 9,875 | Negotiation | Fiaz Mahmmod - Lahore |
| Honda CD-70 LXW - 4634 | 68,755 | 58,542 | 10,213 | 23,000 | 12,787 | Negotiation | Haji Talat - Lahore |
| Yamaha 100 LRD - 2799 | 71,700 | 58,387 | 13,313 | 22,000 | 8,687 | Negotiation | Khalid Mahmood - Sargodha |
| Yamaha 100 LXV - 8427 | 70,700 | 57,573 | 13,127 | 21,000 | 7,873 | Negotiation | Khawar Gulzar - Lahore |
| Honda CD-70 LXW - 4633 | 68,670 | 58,979 | 9,691 | 23,000 | 13,309 | Negotiation | Zulfiqar Ali - Rahim yar khan |
| | 3,598,965 | 2,748,686 | 850,279 | 966,000 | 115,721 | | |
| Machinery | - | - | - | - | - | | |
| | 3,598,965 | 2,748,686 | 850,279 | 966,000 | 115,721 | | |

| | Year ended June 30, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost *Rupees* | Accumulated depreciation *Rupees* | Net book value *Rupees* | Proceeds from disposal *Rupees* | Gain on disposal *Rupees* | Mode of disposal | Particulars of buyer |
| Vehicles | | | | | | | |
| Suzuki Pickup LOT-7133 | 258,423 | 240,834 | 17,589 | 25,000 | 7,411 | Negotiation | Muhammad Ismail - Lahore |
| Suzuki Baleno LXO-9523 | 677,173 | 565,895 | 111,278 | 125,000 | 13,722 | Negotiation | Kashif Ishfaq - Lahore |
| Suzuki Cultus LXW-1733 | 566,230 | 449,920 | 116,310 | 130,000 | 13,690 | Negotiation | Sadaqat Ali - Lahore |
| Suzuki Khyber LXO-3194 | 478,500 | 399,869 | 78,631 | 90,000 | 11,369 | Negotiation | Muhammad Naeem - Lahore |
| Suzuki Mehran LXO-6888 | 330,565 | 276,308 | 54,257 | 60,000 | 5,743 | Negotiation | Muhammad Khan - Lahore |
| Suzuki Cultus LRK-2176 | 597,360 | 427,456 | 169,904 | 180,000 | 10,096 | Negotiation | Muhammad Tahir - Lahore |
| Honda Citi LRQ-3143 | 948,906 | 679,013 | 269,893 | 280,000 | 10,107 | Negotiation | Muhammad Afzal - Lahore |
| | 3,857,157 | 3,039,295 | 817,862 | 890,000 | 72,138 | | |
| Machinery | | | | | | | |
| Caterpillar Diesel | 5,646,667 | 4,113,007 | 1,533,660 | 1,764,000 | 230,340 | Negotiation | Nagina Cotton Mills Limited |
| | 9,503,824 | 7,152,302 | 2,351,522 | 2,654,000 | 302,478 | | |

18.2 Transfers represent transfers from capital work in progress on the related assets becoming available for use. See note 19.

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

| | *Note* | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| Cost of sales | *27* | 94,841,991 | 87,169,791 |
| Administrative expenses | *30* | 2,513,373 | 2,320,942 |
| | | 97,355,364 | 89,490,733 |

19 CAPITAL WORK IN PROGRESS

| | Year ended June 30, 2009 | | | |
|---|---|---|---|---|
| | As at July 01, 2008 *Rupees* | Additions *Rupees* | Transfers *Rupees* | As at June 30, 2009 *Rupees* |
| Building | 850,290 | - | - | 850,290 |
| Plant and Machinery | 417,741 | 45,359,079 | (32,869,270) | 12,907,550 |
| | 1,268,031 | 45,359,079 | (32,869,270) | 13,757,840 |

| | Year ended June 30, 2008 | | | |
|---|---|---|---|---|
| | As at July 01, 2007 *Rupees* | Additions *Rupees* | Transfers *Rupees* | As at June 30, 2008 *Rupees* |
| Building | 4,910,874 | 4,644,483 | (8,705,067) | 850,290 |
| Plant and Machinery | 5,682,806 | 1,202,625 | (6,467,690) | 417,741 |
| | 10,593,680 | 5,847,108 | (15,172,757) | 1,268,031 |

20 LONG TERM DEPOSITS

Long term deposits include security deposits placed with banks, sales tax and central excise, various utility companies and the central depository company.

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| **21 STORES, SPARES AND LOOSE TOOLS** | | |
| Stores | 21,986,946 | 16,681,623 |
| Spares | 8,533,053 | 9,807,315 |
| Loose tools | 271,056 | 104,160 |
| | 30,791,055 | 26,593,098 |
| **22 STOCK IN TRADE** | | |
| Raw material - spinning unit | 493,466,907 | 484,507,473 |
| Fuel stock - power unit | 13,036,200 | 15,091,874 |
| Work in process | 22,478,448 | 18,911,424 |
| Finished goods | 52,509,254 | 46,718,352 |
| Waste | 1,514,611 | 241,123 |
| | 583,005,420 | 565,470,246 |

22.1 Entire stock in trade, with the exception of waste, is carried at cost being lower than NRV.

22.2 For details of stock pledged as security, refer to note 41 to the financial statements.

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **23 TRADE RECEIVABLES** | | | |
| Local - unsecured, considered good | | 120,294,280 | 122,582,065 |
| Foreign - secured | *23.1* | 65,514,634 | 22,909,771 |
| | | 185,808,914 | 145,491,836 |

23.1 These are secured through letters of credit.

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **24 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| Advances to suppliers - unsecured, considered good | | 4,248,836 | 3,789,572 |
| Advances to staff - secured | *24.1* | 579,927 | 1,070,199 |
| Letters of credit | | 42,823,766 | 23,107,954 |
| Prepayments | | 5,559,880 | 3,898,728 |
| Export rebate receivable | | 495,979 | 442,206 |
| Withholding tax on regular income certificates | | 6,240,800 | 6,240,800 |
| Insurance claims | | 934,854 | 268,949 |
| Sales tax refundable | *24.2* | 3,287,592 | 5,536,600 |
| Others - unsecured, considered good | | 743,065 | 60,000 |
| | | 64,914,699 | 44,415,008 |

24.1 These are amounts advanced to staff against future salaries and retirement benefits.

24.2 This represents excess of input tax on purchases over sales tax payable.

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **25 CASH AND BANK BALANCES** | | | |
| Current accounts | | 8,582,510 | 1,395,392 |
| Saving accounts | | | |
| Local Currency | | 7,728,643 | 52,229,974 |
| Foreign Currency - US $ 301 (2008 : US $ 301) | | 24,411 | 18,101 |
| | | 7,753,054 | 52,248,075 |
| | | 16,335,564 | 53,643,467 |

25.1 Effective markup rate in respect of saving accounts ranges from 9.38 % to 12.60 % (2008: 1.5% to 7.5%) per annum.

26. SALES - NET

| | Year ended June 30, 2009 | | | Year ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Local | Export | Total | Local | Export | Total |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| Yarn | 1,551,459,703 | 491,086,775 | 2,042,546,478 | 1,151,838,285 | 602,846,340 | 1,754,684,625 |
| Power | 255,907,622 | - | 255,907,622 | 49,698,554 | - | 49,698,554 |
| Raw cotton, polyester, etc. | 82,155,803 | - | 82,155,803 | 11,786,344 | - | 11,786,344 |
| Waste | 20,787,037 | 39,511,361 | 60,298,398 | 12,694,901 | 12,610,375 | 25,305,276 |
| | 1,910,310,165 | 530,598,136 | 2,440,908,301 | 1,226,018,084 | 615,456,715 | 1,841,474,799 |
| Less: Commission | (3,212,511) | (10,271,992) | (13,484,503) | (2,603,930) | (9,993,373) | (12,597,303) |
| Less: Sales tax | - | - | - | - | - | - |
| Add: Export rebate | - | 111,822 | 111,822 | - | 54,723 | 54,723 |
| | 1,907,097,654 | 520,437,966 | 2,427,535,620 | 1,223,414,154 | 605,518,065 | 1,828,932,219 |

27. COST OF SALES

| | Note | June 30, 2009 | June 30, 2008 |
|---|---|---|---|
| | | *Rupees* | *Rupees* |
| Raw material consumed - spinning unit | *27.1* | 1,452,353,849 | 1,110,588,282 |
| Fuel consumed - power unit | *27.2* | 389,350,040 | 182,070,202 |
| Stores, spares and loose tools consumed | | 72,706,507 | 60,850,797 |
| Salaries, wages and benefits | *27.3* | 126,406,617 | 106,681,825 |
| Insurance | | 9,175,363 | 5,825,644 |
| Repair and maintenance | | 4,799,453 | 4,120,978 |
| Electricity - duty | | 1,890,544 | 1,808,472 |
| Depreciation | *18.3* | 94,841,991 | 97,059,183 |
| Others | | 10,829,755 | 6,964,584 |
| | | 2,162,354,119 | 1,575,969,967 |
| Work in process | | | |
| Opening stock | | 18,911,424 | 18,286,628 |
| Closing stock | | (22,478,448) | (18,911,424) |
| | | (3,567,024) | (624,796) |
| Cost of goods manufactured | | 2,158,787,095 | 1,575,345,171 |
| Finished goods | | | |
| Opening stock | | 46,959,475 | 25,070,345 |
| Finished goods purchased | | 16,198,015 | 7,952,360 |
| Closing stock | | (54,023,865) | (46,959,475) |
| | | 9,133,625 | (13,936,770) |
| | | 2,167,920,720 | 1,561,408,401 |

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Rupees* | *Rupees* |
| 27.1 Raw material consumed - spinning unit | | |
| As at beginning of the year | 484,507,473 | 255,299,009 |
| Purchased during the year | 1,461,313,283 | 1,339,796,746 |
| | 1,945,820,756 | 1,595,095,755 |
| As at end of the year | (493,466,907) | (484,507,473) |
| Consumed during the year | 1,452,353,849 | 1,110,588,282 |
| 27.2 Fuel consumed - power unit | | |
| As at beginning of the year | 15,091,874 | 5,864,482 |
| Purchased during the year | 387,294,366 | 191,297,594 |
| | 402,386,240 | 197,162,076 |
| As at end of the year | (13,036,200) | (15,091,874) |
| Consumed during the year | 389,350,040 | 182,070,202 |

27.3 These include charge in respect of employees retirement benefits amounting to Rs. 6,763,946/- (2008: Rs. 3,846,567/-).

28 OTHER OPERATING INCOME

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| Income from financial instruments | | |
| Gain on sale of short term investments | - | 5,193,964 |
| Income on saving accounts | 358,159 | 50,145 |
| | 358,159 | 5,244,109 |
| Income from non-financial instruments | | |
| Scrap sale | 2,865,725 | 2,677,350 |
| Gain on disposal of property plant and equipment | 115,721 | 302,478 |
| | 2,981,446 | 2,979,828 |
| | 3,339,605 | 8,223,937 |

29 DISTRIBUTION COST

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| Export | | |
| Ocean freight and forwarding | 17,246,037 | 31,929,945 |
| Export development surcharge | 1,197,493 | 1,484,731 |
| | 18,443,530 | 33,414,676 |
| Local | | |
| Inland transportation | 6,437,340 | 5,442,144 |
| Others | 620,686 | 367,129 |
| | 7,058,026 | 5,809,273 |
| | 25,501,556 | 39,223,949 |

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **30 ADMINISTRATIVE EXPENSES** | | | |
| Directors' remuneration | *39.1.2* | 6,183,102 | 5,375,582 |
| Directors' meeting fee | *39.1.2* | 15,000 | 15,000 |
| Salaries, wages and benefits | *30.1* | 18,772,059 | 14,633,041 |
| Rent, rates and taxes | | 518,500 | 509,003 |
| Printing and stationery | | 518,764 | 463,676 |
| Postage and telephone | | 1,771,879 | 1,648,609 |
| Electricity | | 998,430 | 663,032 |
| Repair and maintenance | | 148,948 | 220,232 |
| Software consultancy | | 24,800 | 3,000 |
| Vehicles running and maintenance | | 2,266,510 | 1,876,360 |
| Advertising | | 22,565 | 57,579 |
| Traveling and conveyance | | 8,471,329 | 4,977,600 |
| Legal and professional | | 1,571,181 | 452,884 |
| Auditors' remuneration | *30.2* | 517,500 | 319,360 |
| Fee, subscription and periodicals | | 663,703 | 893,262 |
| Entertainment | | 130,484 | 102,221 |
| Insurance | | 1,633,411 | 1,439,803 |
| Professional tax | | 75,000 | 75,000 |
| Depreciation | *18.3* | 2,513,373 | 2,606,160 |
| Others | | 9,203 | 6,467 |
| | | 46,825,741 | 36,337,871 |

30.1 These include charge in respect of employees retirement benefits amounting to Rs. 2,737,502/- (2008: Rs. 275,355/-).

| | Note | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|---|
| **30.2 Auditors' remuneration** | | | |
| Annual statutory audit | | 375,000 | 175,000 |
| Half yearly review | | 75,000 | 50,000 |
| Review report on code of corporate governance | | 40,000 | 40,000 |
| Out of pocket expenses | | 27,500 | 54,360 |
| | | 517,500 | 319,360 |
| **31 OTHER OPERATING EXPENSES** | | | |
| Workers' Profit Participation Fund | | 282,490 | 4,441,419 |
| Workers' Welfare fund | | 112,996 | - |
| Donations | *31.1* | 1,000,000 | 754,000 |
| Foreign exchange loss | | 3,869,257 | 15,928,741 |
| | | 5,264,743 | 21,124,160 |

31.1 None of the Directors or their spouses had any interest in respect of the donations made by the Company.

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| | Note | June 30, 2009 Rupees | June 30, 2008 Rupees |
|---|---|---|---|
| 32 FINANCE COST | | | |
| Mark-up on: | | | |
| long-term finances - secured | | 62,948,294 | 58,042,494 |
| short-term borrowings - secured | | 110,192,611 | 31,768,226 |
| liabilities against assets subject to finance lease | | 2,535,039 | 370,196 |
| workers' profit participation fund | | 574,951 | 302,034 |
| Bank charges and commission | | 3,857,247 | 4,192,051 |
| | | 180,108,142 | 94,675,001 |
| 33 TAXATION | | | |
| Current | | | |
| for the year | 33.1 | 5,305,981 | 9,207,374 |
| for prior years | | (4,074,007) | - |
| | | 1,231,974 | 9,207,374 |
| Deferred | 33.8 | 3,025,398 | 10,102,301 |
| | | 4,257,372 | 19,309,675 |

33.1 Provision for current tax for the year has been made in accordance with section 18 and section 154 of the Income Tax Ordinance 2001 ("the Ordinance"). The Company has incurred tax losses in respect of its local sales whereas export sales of the Company are taxable under the final tax regime. There is no relationship between the aggregate tax expense and accounting profit and accordingly, no numerical reconciliation has been presented.

33.2 Provision for current tax for the previous year was made in accordance with section 113 "Minimum Tax on income of certain persons" of the Ordinance.

33.3 Assessments for the tax years 2005 to 2008, including transitional tax year 2005, are deemed assessments in terms of Section 120 (1) of the Ordinance, as per returns filled by the Company.

33.4 The income tax assessment up to and including assessment year 2001-02 have been finalized under the relevant provisions of the repealed Income Tax Ordinance, 1979.

33.5 Assessment in respect of assessment year 2002-03 was finalized through assessment order dated April 30, 2005 against which the Company has filed an appeal before the Commissioner of Income tax (Appeals) [CIT (A)] on several grounds. The CIT (A) through appellate order dated November 10, 2005 decided the case in favour of the Company on all issues except the estimation of sale value of scrap which was maintained at Rs. 1,450,000 as against the sale proceeds of Rs 1,007,544 declared by the Company. The department has preferred an appeal before the Income Tax Appellate Tribunal (ITAT) against the CIT (A)'s order, which is pending for hearing. As per the appeal effect order dated March 30 2006, refunds amounting to Rs 5,007,654 have been determined in respect of the above assessment year.

33.6 Deemed assessments in terms of section 120 (1) of the Ordinance, for tax years 2003 and 2004 were amended by the Taxation Officer ("TO") vide order dated June 30, 2005 passed under section 122 (5A) of the Ordinance, thereby erroneously charging minimum tax u/s 113 on local sales separately, in spite of the fact that the total tax payable (including the tax payable under the final tax regime) by the appellant company was more than 0.5% of the aggregate turnover. On appeal, the TO's order was annulled by the CIT (A) through order dated October 14, 2005. Appeal effect was given through order dated January 19, 2006. The department has preferred an appeal before the Income Tax Appellate Tribunal (ITAT) against the CIT (A)'s order, which is pending for hearing.

33.7 In previous years the Company encashed its investment in Regular Income Certificates issued by National Saving Centre (NSC) amounting to Rs.193.76 million. NSC unauthorizedly deducted an amount of Rs. 6.24 million on account of withholding tax from the amount of return on said investment. The Company filed a writ petition on February 14, 2004 with Honorable Lahore High Court (LHC) for refund of this incorrectly withheld amount. LHC vide order dated March 14, 2007 decided the case in favour of the Company. The department and NSC have preferred an appeal before the Supreme Court. Pending the decision of Supreme Court, the deducted amount has been presented as withholding tax in note 24 to the financial statements and no amount has been provided in this regard as based on advice of Company's legal adviser the Management is confident of a favourable decision.

33.8 Revenue from export sales of the Company is subject to taxation under the final tax regime, while the remaining portion of revenue attracts assessment under normal provisions of the Ordinance. Deferred tax is provided for only that portion of timing differences that represent income taxable under normal provisions of the Ordinance. These differences are calculated as that proportion of total timing differences that the local sales, other than the indirect exports, bear to the total sales revenue. Deferred tax has been calculated at 35 % (2008: 35 %) of the timing differences so determined.

34 EARNINGS PER SHARE - BASIC AND DILUTED

| | | June 30, 2009 | June 30, 2008 |
|---|---|---|---|
| Profit attributable to ordinary shareholders | *Rupees* | 996,951 | 65,077,099 |
| Weighted average number of ordinary shares outstanding during the year | *No.* | 10,950,000 | 10,950,000 |
| Earnings per share | *Rupees* | 0.09 | 5.94 |

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

| | *Note* | June 30, 2009<br>*Rupees* | June 30, 2008<br>*Rupees* |
|---|---|---|---|
| **35 CASH GENERATED FROM OPERATIONS** | | | |
| Profit before tax | | 5,254,323 | 84,386,774 |
| Adjustments for non-cash items | | | |
| Finance cost | | 180,108,142 | 94,675,001 |
| Gain on sale of short term investments | | - | (5,193,964) |
| Gain on sale of property, plant and equipment | | (115,721) | (302,478) |
| Depreciation | | 97,355,364 | 99,665,343 |
| Provision for workers' profit participation fund | | 282,490 | 4,441,419 |
| Provision for employees retirement benefits | | 9,501,448 | 4,121,922 |
| | | 287,131,723 | 197,407,243 |
| Operating profit before changes in working capital | | 292,386,046 | 281,794,017 |
| Changes in working capital | | | |
| Increase in stores, spares and loose tools | | (4,197,957) | (2,069,723) |
| Increase in stock in trade | | (17,535,174) | (260,949,782) |
| Increase in trade receivables | | (40,317,078) | (47,104,230) |
| Increase in advances, prepayments and other receivables | | (22,748,699) | (18,855,070) |
| Increase in trade and other payables | | 26,477,069 | 311,696 |
| Cash generated from operations | | 234,064,207 | (46,873,092) |
| **36 CASH AND CASH EQUIVALENTS** | | | |
| Cash and Bank Balances | 25 | 16,335,564 | 53,643,467 |

37 FINANCIAL RISK EXPOSURE AND MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk). Financial risk management is carried out under risk policies established and approved by the Board of Directors. The management administers all aspects of risk management involving currency and interest rate risk, and cash management, in accordance with the risk policy.

The Company's exposure to financial risks, the way these risks affect revenues, expenses, assets, liabilities and forecast transactions of the Company and the manner in which each of these risks are managed is as follows:

37.1 Credit risk

Credit risk is the risk of financial loss to the Company, if a counterparty to a financial instrument fails to meet its contractual obligations.

37.1.1 Maximum credit exposure

The maximum exposure to credit risk as at the reporting date is as follows:

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| Loans and receivables | | |
| Long term deposits | 5,115,190 | 1,657,190 |
| Trade receivables | 185,808,914 | 145,491,836 |
| Export rebate receivable | 495,979 | 442,206 |
| Insurance claims | 934,854 | 268,949 |
| Cash at banks | 16,335,564 | 53,643,467 |
| | 208,690,501 | 201,503,648 |

37.1.2 Concentration of credit risk

Maximum exposure to credit risk by type of counter party as at the reporting date is:

| | | |
|---|---|---|
| Customers | 185,808,914 | 145,491,836 |
| Banking companies and financial institutions | 17,270,418 | 53,912,416 |
| Government of Pakistan | 495,979 | 442,206 |
| Utility companies and local authorities | 5,115,190 | 1,657,190 |
| | 208,690,501 | 201,503,648 |

37.1.3 Credit quality

Credit quality of counter parties is assessed based on historical default rates and where available, individual credit ratings. Credit quality of each component of loans and receivables is as follows:

*Long term deposits*

Long term deposits include security deposits with banking companies and financial institutions, central depository company and those placed with various utility companies against services provided by them and as such credit risk in respect of these is minimal.

*Cash at banks*

The Company's bankers have commendable credit ratings and accordingly cash at banks is not exposed to any significant credit risk.

*Export rebate receivable*

Receivables on account of export rebate are due on account of export performance of the Company which are also recovered in the normal course of business on a regular basis.

*Insurance claims*

Credit risk in respect of insurance claims is considered insignificant since these claims have been lodged with insurance companies with acceptable credit ratings.

*Trade receivables*

The Company is exposed to credit risk in respect of its trade receivables. An analysis of age of trade receivables is presented below.

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| The aging of loans and receivables as at the reporting date is as follows: | | |
| Not past due | 208,690,501 | 201,503,648 |
| Past due | - | - |
| | 208,690,501 | 201,503,648 |

37.1.4 Collateral held

The Company does not hold collateral to secure its loans and receivables. However, foreign trade receivables of the Company are secured through letters of credits and exposure to credit risk in respect of these is minimal.

37.1.5 Credit risk management

As mentioned in note 37.1.3 above, the Company's exposure to credit risk principally arises from trade receivables.

In respect of trade receivables, the Company does not have significant concentration of credit risk with a single customer. Formal policies and procedures of credit management and administration of receivables are established and executed. In monitoring customer credit risk, the ageing profile of total receivables balances and individually significant balances, along with collection activities are reported to the Board of Directors on a monthly basis. High risk customers are identified and restrictions are placed on future trading, including suspending future shipments and administering dispatches on a prepayment basis or confirmed letters of credit. These actions are also reported to the Board on a monthly basis.

37.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

37.2.1 Exposure to liquidity risk

Following are the contractual maturities of financial liabilities, including estimated interest payments

| | As at June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *Rupees* | Contractual cash flows *Rupees* | One year or less *Rupees* | One to five years *Rupees* | More than five years *Rupees* |
| Long term finances | 532,915,820 | 627,176,018 | 207,739,553 | 419,436,465 | - |
| Liabilities against assets subject to finance lease | 21,672,571 | 30,266,484 | 6,741,416 | 23,525,068 | - |
| Short term borrowings | 630,444,687 | 630,444,687 | 630,444,687 | - | - |
| Markup accrued on borrowings | 41,133,496 | 41,133,496 | 41,133,496 | - | - |
| Trade creditors | 24,430,569 | 24,430,569 | 24,430,569 | - | - |
| Accrued liabilities | 39,123,030 | 39,123,030 | 39,123,030 | - | - |
| Unclaimed dividend | 723,822 | 723,822 | 723,822 | - | - |
| Other payables | 1,847,493 | 1,847,493 | 1,847,493 | - | - |
| | 1,292,291,488 | 1,395,145,599 | 952,184,066 | 442,961,533 | - |

| | As at June 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *Rupees* | Contractual cash flows *Rupees* | One year or less *Rupees* | One to five years *Rupees* | More than five years *Rupees* |
| Long term finances | 564,105,453 | 627,176,018 | 207,739,553 | 419,436,465 | - |
| Liabilities against assets subject to finance lease | 4,647,953 | 5,298,873 | 3,141,648 | 2,157,225 | - |
| Short term borrowings | 647,875,502 | 647,875,502 | 647,875,502 | - | - |
| Markup accrued on borrowings | 25,487,089 | 25,487,089 | 25,487,089 | - | - |
| Trade creditors | 8,886,534 | 8,886,534 | 8,886,534 | - | - |
| Accrued liabilities | 32,536,480 | 32,536,480 | 32,536,480 | - | - |
| Unclaimed dividend | 519,314 | 519,314 | 519,314 | - | - |
| Other payables | 1,997,203 | 1,997,203 | 1,997,203 | - | - |
| | 1,286,055,528 | 1,349,777,013 | 928,183,323 | 421,593,690 | - |

37.2.2 Liquidity risk management

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors cash flow requirements and produces cash flow projections for the short and long term. Typically, the Company ensures that its has sufficient cash on demand to meet expected operational cash flows, including servicing of financial obligations. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer. The Company also maintains various lines of credit with banking companies. Further, the Company has the support of its sponsors and associated undertakings in respect of any temporary liquidity shortfalls.

37.3 Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's net profit or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

37.3.1 Currency risk

The Company is exposed to currency risk in respect of purchases and resulting balances that are denominated in a currency other than functional currency. The Company's exposure to currency risk as at the reporting date is as follows:

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| Trade receivables | 65,514,608 | 22,909,799 |
| Cash and cash equivalents | 24,411 | 18,101 |
| Short term borrowings | (225,050,912) | (184,394,326) |
| Trade payables | (14,385,791) | - |
| Total exposure | (173,897,685) | (161,466,426) |

The Company manages currency risk by maintaining foreign currency working capital credit lines with its bankers to finance purchase of imported raw material for use in manufacture of products for exports. Proceeds from such exports are then used to repay the borrowing, which substantially reduces its exposure to currency risk in respect of its export sales and import of raw material and spares.

All foreign currency balances are denominated in USD. Average exchange rate used during the year is Rs. 78.10 / USD (2008: Rs. 63.90/USD). Spot exchange rate applied for measuring financial assets and liabilities as at the reporting date is Rs. 81.10 /USD (2008: Rs.67.82) and Rs. 81.30/USD respectively.

A ten percent appreciation in Rupee would have decreased profit by Rs. 5.115 million (2008: Rs. 2.293 million). A ten percent depreciation would have had the equal but opposite effect on profit. This sensitivity analysis is based on assumption that all variables, with the exception of foreign exchange rates, remain unchanged.

37.3.2 Interest rate risk

The interest rate profile the Company's interest bearing financial instruments as at the reporting date is as follows:

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| Fixed rate instruments | | |
| Financial assets | - | - |
| Financial liabilities | 68,671,073 | 81,263,082 |
| Variable rate instruments | | |
| Financial assets | 7,753,054 | 52,248,075 |
| Financial liabilities | 1,116,362,006 | 1,113,466,734 |

The Company is exposed to interest rate risk in respect of its variable rate instruments. A 100 basis points increase in variable interest rates would have decreased profit by Rs. 11.1 million (2008: Rs. 10.6 million). A 100 basis points decrease in variable interest rate would have had an equal but opposite impact on profit. This sensitivity analysis is based on assumption that all variables, with the exception of interest rates, remain unchanged.

The effective interest / mark-up rates in respect of financial instruments are mentioned in respective notes to the financial statements.

38 CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and level of dividends to ordinary shareholders. The Company seeks to keep a balance between the higher return that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position. The Company monitors capital using the gearing ratio which is debt divided by total capital employed. Debt comprises, redeemable capital, long term finances and liabilities against assets subject to finances lease, including current maturity. Total capital employed includes total equity as shown in the balance sheet plus debt. The Company's strategy is to maintain an optimal capital structure in order to minimize cost of capital. There were no changes in the Company's approach to capital management during the year. Further the Company is not subject to externally imposed capital requirements.

39 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties from the Company's perspective comprise associated undertakings and other related group companies, key management personnel including chief executive, directors and executives and post employment benefit plans.

The Company in the normal course of business carries out various types of transactions with related parties. Related party transactions are carried out on an arm's length basis. Pricing for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

NAGINA
NAGINA GROUP

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Rupees* | *Rupees* |

Details of transactions and balances with related parties are as follows:

39.1 Transactions with related parties

39.1.1 Transactions with associated undertakings

| | June 30, 2009 Rupees | June 30, 2008 Rupees |
|---|---|---|
| Purchases of raw material | 32,223,063 | 29,064,232 |
| Purchases of yarn | 7,473,200 | 7,314,060 |
| Purchase of stores and spares | 211,561 | 1,053,367 |
| Purchases of Furnace oil | 14,597,976 | - |
| Purchases of Comber noil | 3,031,815 | - |
| Purchase of Lycra | 2,663,100 | - |
| Purchase of property, plant and equipment | - | 19,300,000 |
| Sale of property, plant and equipment | - | 1,764,000 |
| Sale of raw material | 42,848,843 | 9,593,370 |
| Sale of yarn | 443,736,389 | 270,486,374 |
| Sale of Furnace oil | 12,346,758 | - |
| Sale of diesel | - | 568,200 |
| Sale of stores and spares | 100,920 | 510,643 |
| Sale of comber noil | 21,818 | - |
| Sale of lycra | 94,716 | - |
| Rent paid | 480,000 | 480,000 |
| Dividend paid | 7,773,556 | 10,364,740 |

39.1.2 Transactions with key management personnel *(including chief executive, directors and executives)*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director. The Company's key management personnel comprise the Chief Executive, Directors and Executives. Total compensation for key management personnel was as follows:

| | Year ended 30 June 2009 | | |
|---|---|---|---|
| | Chief Executive *Rupees* | Directors *Rupees* | Executives *Rupees* |
| Short-term employee benefits | | | |
| Remuneration | 1,656,000 | 2,590,020 | 3,640,000 |
| Housing | 414,000 | 777,480 | 1,456,000 |
| Utilities | 416,752 | 121,850 | 364,000 |
| Medical | - | 207,000 | - |
| Meeting fee | - | 15,000 | - |
| | 2,486,752 | 3,711,350 | 5,460,000 |
| Post employment benefits | | | |
| Retirement benefits | - | - | 303,349 |
| | 2,486,752 | 3,711,350 | 5,763,349 |
| Number of person | 1 | 2 | 7 |

| | Year ended 30 June 2008 | | |
|---|---|---|---|
| | Chief Executive *Rupees* | Directors *Rupees* | Executives *Rupees* |
| Short-term employee benefits | | | |
| Remuneration | 1,440,000 | 2,287,951 | 3,080,000 |
| Housing | 360,000 | 622,049 | 1,232,000 |
| Utilities | 524,808 | 140,774 | 308,000 |
| Meeting fee | - | 15,000 | - |
| | 2,324,808 | 3,065,774 | 4,620,000 |
| Post employment benefits | | | |
| Retirement benefits | - | - | 233,330 |
| | 2,324,808 | 3,065,774 | 4,853,330 |
| Number of person | 1 | 2 | 7 |

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| **39.2 Balances with related parties** | | |
| 39.2.1 Balances with key management personnel *(including chief executive, directors and executives)* | | |
| Short-term employee benefits payable | 303,349 | 233,330 |
| Post employment benefits payable | 2,218,274 | 2,199,238 |

## 40 SHARES IN THE COMPANY HELD BY ASSOCIATED UNDERTAKINGS

| | June 30, 2009 *No. of shares* | June 30, 2008 *No. of shares* |
|---|---|---|
| Nagina Cotton Mills Limited | 2,856,995 | 2,856,995 |
| Shareholders of Nagina Cotton Mills Limited | - | 3,740,000 |
| Haroon Omer (Private) Limited | 512,000 | 512,000 |
| Monell (Private) Limited | 631,350 | 631,350 |
| Icaro (Private) Limited | 553,625 | 553,625 |
| ARH (Private) Limited | 628,400 | 628,400 |
| | 5,182,370 | 8,922,370 |

## 41 RESTRICTION ON TITLE, AND ASSETS PLEDGED AS SECURITY

| | June 30, 2009 *Rupees* | June 30, 2008 *Rupees* |
|---|---|---|
| Mortgages and charges | | |
| Hypothecation over stocks and movables | 2,271,750,000 | 2,271,750,000 |
| Hypothecation over book debts and receivables | 2,228,845,898 | 2,228,845,898 |
| Floating charge | 215,000,000 | 215,000,000 |
| Mortgage over land and building | 1,295,000,000 | 1,161,000,000 |
| Hypothecation over plant and machinery | 1,295,000,000 | 1,161,000,000 |
| | 7,305,595,898 | 7,037,595,898 |

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Rupees* | *Rupees* |
| Physical pledge | | |
| Raw material | 39,283,324 | - |
| Finished goods | - | - |
| | 39,283,324 | - |

42 SEGMENT INFORMATION

The primary reporting format followed by the Company is business segments. As at the report date, the Company is organised into the following two business segments.

| | |
|---|---|
| - Spinning | *Manufacture and sale of yarn* |
| - Power | *Generation and sale of electricity* |

42.1 Segment results

| | Year ended June 30, 2009 | | | Year ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Power | Spinning | Total | Power | Spinning | Total |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| Revenue | 440,435,382 | 2,171,627,998 | 2,612,063,380 | 214,910,817 | 1,779,233,665 | 1,994,144,482 |
| Inter segment revenue | (184,527,760) | - | (184,527,760) | (165,212,263) | - | (165,212,263) |
| Revenue from external customers | 255,907,622 | 2,171,627,998 | 2,427,535,620 | 49,698,554 | 1,779,233,665 | 1,828,932,219 |
| Other income | - | 3,339,605 | 3,339,605 | - | 8,223,937 | 8,223,937 |
| Depreciation | 13,576,252 | 83,779,112 | 97,355,364 | 13,098,490 | 86,566,853 | 99,665,343 |
| Results from operating activities | 20,319,044 | 165,043,421 | 185,362,465 | 5,402,748 | 173,659,027 | 179,061,775 |
| Finance cost | - | (180,108,142) | (180,108,142) | - | (94,675,001) | (94,675,001) |
| Profit before taxation | 20,319,044 | (15,064,721) | 5,254,323 | 5,402,748 | 78,984,026 | 84,386,774 |
| Taxation | - | (4,257,372) | (4,257,372) | - | (19,309,675) | (19,309,675) |
| Profit after taxation | 20,319,044 | (19,322,093) | 996,951 | 5,402,748 | 59,674,351 | 65,077,099 |

42.2 Segment assets and liabilities

| | As at June 30, 2009 | | | As at June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Power | Spinning | Total | Power | Spinning | Total |
| | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* | *Rupees* |
| Assets | 162,107,017 | 1,663,574,290 | 1,825,681,307 | 169,326,229 | 1,637,166,408 | 1,806,492,637 |
| Liabilities | - | 1,356,820,860 | 1,356,820,860 | - | 1,322,204,141 | 1,322,204,141 |
| Capital expenditure | - | 37,007,415 | 37,007,415 | - | 82,573,927 | 82,573,927 |

42.2.1 Segment assets comprise, property, plant and equipment, capital work in progress, inventories, trade and other receivables, advance, deposits, prepayments and, cash and bank balances.

42.2.2 Segment liabilities comprise borrowings, mark-up accrued on borrowings, employee retirement benefits and, trade and other payables.

42.2.3 Capital expenditure comprises additions to property, plant and equipment and capital work in progress.

42.3 Secondary reporting format

Segmentation based on geographical segments results in same segmentation as is provided above under the primary reporting format. Therefore, no segment information on secondary reporting format has been presented.

43 EVENTS AFTER THE REPORTING PERIOD

The Board of Directors in its meeting held on 29-09-2009 has proposed to pay cash dividend @ 7.5% i.e. 0.75 paisas 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 the financial statements.

44 PLANT CAPACITY AND ACTUAL PRODUCTION

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| Textile | | |
| Number of spindles installed | 54,528 | 54,528 |
| Number of spindles worked | 54,528 | 54,528 |
| Number of shifts per day | 3 | 3 |
| Installed capacity after conversion into 30 / s counts (Kgs.) | 13,654,540 | 13,654,540 |
| Actual production of yarn after conversion into 30 / s counts (Kgs.) | 11,703,132 | 12,087,839 |
| All counts production (Kgs.) | 11,277,890 | 10,460,420 |

It is impracticable to precisely describe production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist etc. It would also vary accordingly to the pattern of production adopted in a particular year.

| | June 30, 2009 | June 30, 2008 |
|---|---|---|
| | *Mwhs* | *Mwhs* |
| Power | | |
| Installed / actual capacity for the period at 100 % efficiency (based on 8.760 hrs) | 121,414 | 121,414 |
| Power generated during the year | 65,983 | 46,223 |
| Self consumption | 41,776 | 41,925 |
| Electricity sold / billed | 24,207 | 4,298 |

45 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 29, 2009 by the Board of Directors of the Company.

46 GENERAL

Figures have been rounded of to the nearest rupee.

Lahore: September 29, 2009

**Shahzada Ellahi Shaikh**
Director

**Shafqat Ellahi Shaikh**
Mg. Director (Chief Executive)

FORM 34

## THE COMPANIES ORDINANCE, 1984
## (Section 236(1) and 464)

## PATTERN OF SHAREHOLDING

**1.** **Incorporation Number** **0018985**

**2.** **Name of the Company** ELLCOT SPINNING MILLS LTD.

**3.** **Pattern of holding of the shares held by the shareholders as at** 30-06-2009

**4.**

| No. of Shareholders | Shareholding From | Shareholding To | Total Shares Held |
|---|---|---|---|
| 63 | 1 | 100 | 4,134 |
| 118 | 101 | 500 | 37,520 |
| 64 | 501 | 1,000 | 49,736 |
| 62 | 1,001 | 5,000 | 132,649 |
| 19 | 5,001 | 10,000 | 141,965 |
| 1 | 10,001 | 15,000 | 10,200 |
| - | 15,001 | 25,000 | - |
| 1 | 25,001 | 30,000 | 28,000 |
| 1 | 30,001 | 35,000 | 30,500 |
| - | 35,001 | 45,000 | - |
| 1 | 45,001 | 50,000 | 49,500 |
| 1 | 50,001 | 55,000 | 54,000 |
| - | 55,001 | 130,000 | - |
| 1 | 130,001 | 135,000 | 131,350 |
| - | 135,001 | 145,000 | - |
| 1 | 145,001 | 150,000 | 148,200 |
| - | 150,001 | 510,000 | - |
| 1 | 510,001 | 515,000 | 512,000 |
| - | 515,001 | 550,000 | - |
| 1 | 550,001 | 555,000 | 553,625 |
| - | 555,001 | 625,000 | - |
| 1 | 625,001 | 630,000 | 628,400 |
| 1 | 630,001 | 635,000 | 631,350 |
| - | 635,001 | 690,000 | - |
| 1 | 690,001 | 695,000 | 693,700 |
| - | 695,001 | 705,000 | - |
| 1 | 705,001 | 710,000 | 706,880 |
| - | 710,001 | 725,000 | - |
| 1 | 725,001 | 730,000 | 728,146 |
| - | 730,001 | 900,000 | - |
| 3 | 900,001 | 905,000 | 2,704,750 |
| - | 905,001 | 2,855,000 | - |
| 1 | 2,855,001 | 2,860,000 | 2,856,995 |
| | | | 116,400 |
| **344** | **Total:-** | | **10,950,000** |

| 5. | Categories of Shareholders | Shares Held | Percentage |
|---|---|---|---|
| 5.1 | **Directors, Chief Executive Officer, and their spouse and minor children.** | | |
| | MR. SHAIKH ENAM ELLAHI | 131,350 | 1.20 |
| | MR. SHAHZADA ELLAHI SHAIKH | 900,350 | 8.22 |
| | MR. SHAUKAT ELLAHI SHAIKH | 904,050 | 8.26 |
| | MR. SHAFQAT ELLAHI SHAIKH | 900,350 | 8.22 |
| | MR. S.M. YUSUF | 825 | 0.01 |
| | MR. SYED MOHSING GILANI | 500 | 0.00 |
| | MR. JAMAL NASIM (Nominee NIT) | - | 0.00 |
| | MRS. HUMERA SHAHZADA | 800 | 0.01 |
| | MRS. MONA SHAUKAT | 800 | 0.01 |
| | MRS. SHAISTA SHAFQAT | 800 | 0.01 |
| | | 2,839,825 | 25.94 |
| 5.2 | **Associated Companies, undertakings and related parties** | | |
| | M/S. NAGINA COTTON MILLS LTD. | 2,856,995 | 26.09 |
| | M/S. HAROON OMER (PVT) LTD. | 512,000 | 4.68 |
| | M/S. MONELL (PVT) LTD. | 631,350 | 5.77 |
| | M/S. ICARO (PVT) LTD. | 553,625 | 5.06 |
| | M/S. ARH (PVT) LTD. | 628,400 | 5.73 |
| | | 5,182,370 | 47.33 |
| 5.3 | **NIT and ICP** | | |
| | NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT. | 706,880 | 6.46 |
| | NBP TRUSTEE - NI(U)T (LOC) FUND | 728,146 | 6.64 |
| | IDBP (ICP UNIT) | 200 | 0.00 |
| | | 1,435,226 | 13.10 |
| 5.4 | **Banks Development Finance Institutions, Non Banking Finance Institutions.** | 148,200 | 1.35 |
| | | 148,200 | 1.35 |
| 5.5 | **Insurance Companies** | Nil | Nil |
| 5.6 | **Modarabas and Mutual Funds** | Nil | Nil |
| 5.7 | **Shareholders Holding 10% or more** | | |
| | M/S. NAGINA COTTON MILLS LTD. | 2,856,995 | 26.09 |
| | | 2,856,995 | 26.09 |
| 5.8 | **General Public** | | |
| | a. Local | 1,277,354 | 11.67 |
| | b. Foreign | Nil | Nil |
| 5.9 | **Others** | 67,025 | 0.61 |

**Note:-**

M/s. Nagina Cotton Mills Ltd., had distributed 3,740,000 ordinary shares of M/s. Ellcot Spinning Mills Ltd., among its members, out of which 116,400 ordinary shares have yet to be transferred by the members of M/s. Nagina Cotton Mills Ltd., These shares have been shown under the head “General Public”.

NAGINA
NAGINA GROUP

# FORM OF PROXY

The Secretary,
ELLCOT SPINNING MILLS LTD.
Nagina House,
91-B-1, M.M. Alam Road,
Gulberg-III,
Lahore-54660.

I/We ____________________________________________ of _______________being member(s) of ELLCOT SPINNING MILLS LTD., and holder of __________________ Ordinary Shares as per Share Register Folio No. _______________ (In case of Central Depository System Account Holder A/c No. ______________ Participant I.D. No. ________________________) hereby appoint _______________________________________ of _________________ who is member of the company as per Register Folio No. _____________________ (In case of Central Depository System Account Holder A/c No. ______________ Participant I.D. No. ________________________) or failing him/her __________________________________________ of _________________ who is member of the Company as per Register Folio No. ___________________ (In case of Central Depository System Account Holder A/c No. ______________ Participant I.D. No. _______________) as my/our proxy to vote for me/us and on my/our behalf at the 21st Annual General Meeting of the Company to be held on October 26, 2009 and at any adjournment thereof.

Affix
Rs. 5/-
Revenue
Stamp

(Signature should agree with the
Specimen signature registered
with the Company)

Signed at ____________________ this the ______________ day of __________________ 2009

**NOTE:**

1. If a member is unable to attend the meeting, he/she may sign this form and send it to the Secretary so as to reach him not less than 48 hours before the time of holding the meeting.

2. Account holders and sub-account holders, holding book entry securities of the Company in CDS of Central Depository Company of Pakistan Ltd., who wish to attend the Annual General Meeting are requested to please bring original National Identity Card with copy thereof duly attested by their Bankers for identification purpose.

3. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.