

Annual Report 2008



NAGINA GROUP

NAGINA COTTON MILLS LTD.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Shaikh Enam Ellahi Chairman
Mr. S.M. Yusuf
Mr. Shahzada Ellahi Shaikh
Mr. Shaukat Ellahi Shaikh
Mr. Khawaja Muhammad Ali
Mr. Shafqat Ellahi Shaikh
Mr. Munawar Iqbal

MANAGING DIRECTOR (Chief Executive)

Mr. Shaukat Ellahi Shaikh

AUDIT COMMITTEE

Mr. Shaikh Enam Ellahi Chairman
Mr. Shahzada Ellahi Shaikh Member
Mr. Shafqat Ellahi Shaikh Member
Mr. Syed Mohsin Gilani Secretary

CHIEF FINANCIAL OFFICER (CFO)

Mr. Tariq Zafar Bajwa

CORPORATE SECRETARY

Mr. Syed Mohsin Gilani

AUDITORS

Messrs M. Yousuf Adil Saleem & Co.,
Chartered Accountants,
Cavish Court, A-35, Block 7 & 8 KCHSU
Shahrah-e-Faisal,
Karachi.

REGISTERED OFFICE

2nd Floor, Shaikh Sultan Trust Bldg. No.2
26, Civil Lines, Beaumont Road,
Karachi - 75530

SHARES REGISTRARS

M/s Hameed Majeed Associates (Pvt.) Ltd.
5th Floor, Karachi Chambers,
Hasrat Mohani Road,
Karachi.
Phone # 021-2412754, 2411474,
Fax # 021-2424835.

MILLS

Aminabad, A-16, S.I.T.E.,
National Highway,
Kotri.

NOTICE OF MEETING

41st Annual General Meeting of NAGINA COTTON MILLS LTD. will be held at the Registered Office of the Company, 2nd Floor, Shaikh Sultan Trust Bldg. No.2, 26, Civil Lines, Beaumont Road, Karachi - 75530 on Wednesday the 29th October, 2008 at 3:00 p.m. to transact the following business:-

1. To confirm minutes of the Extraordinary General Meeting held on 15th January, 2008.
2. To receive and adopt audited accounts of the Company for the year ended on 30th June, 2008 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors and to fix their remuneration.
4. To transact any other ordinary business with the permission of the Chair.

By Order of the Board



Syed Mohsin Gilani
Corporate Secretary

September 25, 2008

NOTES:

1. The share transfer books of the Company will be closed from Wednesday the 22nd October, 2008 to Wednesday the 29th October, 2008 (both days inclusive).
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.

Vision:

To strive for excellence through commitment, integrity, honesty and team work.

Mission:

The mission of company is to operate state of the art spinning machinery capable of producing high quality carded and combed, cotton, core spun and blended yarn for knitting and weaving.

The company will conduct its operations prudently assuring customer satisfaction and will provide profits and growth to its shareholders through;

- Providing quality products and services to our customers mainly engaged in the manufacturing of textile products.
- Manufacturing of cotton, core spun and blended yarn as per the customers' requirements and market demand.
- Exploring the global market with special emphasis on Europe and USA.
- Keeping pace with the rapidly changing technology by continuously balancing, modernization and replacement (BMR) of plant and machinery.
- Enhancing the profitability by improved efficiency and cost controls.
- Recruiting, developing, motivating and retaining the personnel having exceptional ability and dedication by providing them good working conditions, performance based compensation, attractive benefit program and opportunity for growth.
- Protecting the environment and contributing towards the economic strength of the country and function as a good corporate citizen.

Director's Report

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

The Directors have the honour to present 41st Annual Report of the Company together with audited accounts and auditors' report thereon for year ended June 30, 2008. Figures for the previous year ended 30th June, 2007 are included for comparison.

During the year 11,263,379 Kgs. (2006-07: 11,157,887 Kgs.) of yarn was spun. 11,444,895 Kgs. (2006-07: 11,276,217 Kgs.) yarn was sold. Sales value of yarn amounted to Rs. 1,698,035,251/= (2006-07: Rs. 1,454,100,665/=).

Selling & Distribution costs were Rs. 28,279,044/= and were 1.57% of sales. (2006-07: Rs. 24,149,384/= or 1.58% of sales). Administrative expenses at Rs. 47,871,405/= are 2.66% of sales (2006-07: Rs. 43,084,779/= or 2.82% of sales) and Workers Profit Participation Fund at Rs. 712,372/= are 0.04% of sales. (2006-07: Rs. 2,986,504/= were 0.20% of sales). Workers Welfare Fund is Rs. 257,330/= is 0.01% of sales. (2006-07: Rs. 1,180,995/= or .08% of sales). Share of Profit from Associated undertakings is Rs. 13,412,724/- (2006-07: Rs. 21,315,271/=). Other income amounted to Rs. 18,372,016/= or 1.02% of sales. (2006-07: Rs. 15,525,685/= or 1.02% of sales).

Finance costs are Rs. 83,422,049/= or 4.63% of sales (2006-07: Rs. 74,002,207/= or 4.85% of sales).

Gross profit at Rs. 141,366,612/= amounts to 7.85% of sales (2006-07: Rs. 163,445,138/= or 10.70% of sales). Profit before taxation amounts to Rs. 12,609,152/= or 0.70% of sales. (2006-07: Rs. 54,882,225/= or 3.59% of sales). After providing Rs. 9,000,000/= for current and Rs. 2,500,000/= for deferred taxes (2006-07: Rs. 7,700,000/= for current taxes and deferred tax of Rs. 4,000,000/=), net after tax profit for the year, amounts to Rs. 1,109,152/= or 0.06% of sales (2006-07: Rs. 43,182,225/= or 2.83% of sales). Earning per ordinary share amounts to Re. (0.41) (2006-07: Re. 1.52) per ordinary share.

Government of Pakistan had fixed target for the crop year 2007-08 at 14.14 million bales of lint cotton. According to Pakistan Cotton Ginners Association, total *Kapas* (seed cotton) arrivals for the season amounted to 11,362,925 lint cotton equivalent bales. The crop was thus 8.52% lower than that of crop year 2006-07.

The Directors regret that due to low profit, they are unable to declare Dividend this year.

Severe recession is being feared in the Western World. What effect the recession will have on Pakistan economy is not known. The Company's business in the current year (2008-09) so far, has not been satisfactory and the Directors pray that conditions will improve so that 2008-09 may become a reasonably profitable year.

Associated Company, M/s. ELLCOT SPINNING MILLS LTD., have earned after tax profit of Rs. 65,077,099/= (2006-07: Rs. 63,926,145/=). Ellcot Board have recommended payment of Cash Dividend @ 15% i.e. Re. 1/50= (Rupees one and paise fifty only).

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.

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.

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.

During 2007-2008, trades in the ordinary shares of the Company were not 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:-

<u>S #</u>	<u>Name</u>	<u>Attended</u>
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	4 (four)
5.	Mr. Shafqat Ellahi Shaikh	3 (three)
6.	Mr. Munawar Iqbal	2 (two)
7.	Mr. Khawaja Muhammad Ali	2 (two)

Leave of absence was granted to Directors who could not attend some of the Board meetings.

The statements of shareholdings, in Form 34 and the form prescribed in Listing Regulations, as at June 30, 2008 are annexed.

The retiring auditors, Messrs. M. Yousuf Adil Saleem & Co., Chartered Accountants, Karachi being eligible, have offered themselves for re-appointment. The Audit Committee has recommended their re-appointment as auditors for the year 2008-2009.

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. The Directors also wish to place on record their thanks to the Bankers for their continued support to the Company.

On behalf of the Board



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

September 25, 2008.

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 regulations 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 two 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 NBFIs. None of the Directors are or were member 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. No specific orientation course was held during the year. However, the management continue to apprise and familiarize with changes in law to discharge their duties and responsibilities.
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. We confirm that all other material principles contained in the Code have been complied with.

for & on behalf of the Board



SHAUKAT ELLAHI SHAIKH
Mg. Director (Chief Executive)
NIC NO. 35202-2529098-5

September 25, 2008

OPERATING FINANCIAL & INVESTMENT RATIOS AS ON 30TH JUNE:

		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Cost of sales as % of sales	%	92.15	89.30	89.49	85.48	93.13	88.54	82.72	83.55	75.79	85.34
Gross profit as % of sales	%	7.85	10.70	10.51	14.52	6.87	11.46	17.28	16.45	24.21	14.66
Operating profit as % of sales	%	3.57	6.03	5.79	9.48	3.60	* 9.45	14.28	14.88	21.44	12.91
Net profit after tax as % of sales	%	0.06	2.83	1.51	7.05	2.18	4.58	6.48	6.76	11.01	3.78
Share holders' equity (millions)	Rs.	404.32	560.98	682.25	517.40	597.39	592.38	624.00	308.23	272.17	164.82
Pre-tax profit to equity	%	3.12	9.78	4.85	20.15	8.25	13.37	16.04	33.56	60.46	35.38
Sales to Capital employed ratio		2.53	1.75	1.40	1.53	2.21	1.64	1.32	2.27	2.26	2.92
Gross profit to Capital employed	%	19.86	18.72	14.74	22.15	15.25	18.86	22.80	37.31	54.80	42.77
Pre-tax profit to Capital employed	%	1.77	6.28	3.24	13.88	6.53	9.47	10.41	19.14	32.51	15.04
Earning per ordinary share Pre-tax	Rs.	0.20	2.14	1.14	4.94	0.95	2.55	5.35	5.53	8.80	3.12
Dividend to Capital:											
Cash	%	-	15.00	8.80	20.00	15.00	11.00	15.00	25.00	10.00	20.00
Bonus / Specie Dividend	%	-	-	20.0	-	-	40.00	-	-	100.00	-
Break up value per ordinary share	Rs.	21.62	23.53	30.02	19.66	19.00	18.74	20.44	16.48	14.56	17.63
Debt equity ratio		43.19	34.47	32.70	31.08	20.90	29.20	35.09	42.96	46.22	57.48
Current ratio		1.18	1.57	1.33	1.45	1.85	2.17	1.75	1.05	1.37	1.00
Asid test ratio		0.49	0.93	0.73	0.66	1.00	1.60	1.27	0.73	0.89	0.42
Total Debts to total assets	%	65.97	53.66	55.49	56.20	13.98	21.63	55.73	66.96	63.90	78.00
Stocks as % of sales	%	15.68	12.12	19.33	24.38	12.12	8.30	12.28	8.33	7.92	17.39

Pattern of Shareholding
As at 30th June, 2008

S #	Name	Total Shares	%
1)	<u>ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES</u>		
i)	M/S. HAROON OMER (PVT) LIMITED	480,600	2.57
ii)	M/S. MONELL (PVT) LIMITED	501,600	2.68
iii)	M/S. ICARO (PVT) LIMITED	480,700	2.57
iv)	M/S. ARH (PVT) LIMITED	1,609,642	8.61
2)	<u>NIT and ICP</u>		
i)	NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	2,546	0.01
ii)	NBP TRUSTEE-NI(U)T (LOC) FUND	2,624	0.02
iii)	INVESTMENT CORPORATION OF PAKISTAN	1,430	0.01
3)	<u>DIRECTORS, CEO AND THEIR SPOUSE AND MINOR CHILDREN</u>		
i)	MR. SHAIKH ENAM ELLAHI	401,009	2.14
ii)	MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
iii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
iv)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
v)	MRS. HUMAIRA SHAHZADA	4,248	0.02
vi)	MRS. MONA SHAUKAT	4,248	0.02
vii)	MRS. SHAISTA SHAFQAT	4,248	0.02
viii)	MR. MUNAWAR IQBAL	2	-
ix)	MR. S.M. YUSUF	1,100	0.01
x)	MR. KHAWAJA MUHAMMAD ALI	500	-
4)	<u>EXECUTIVES</u>	Nil	Nil
5)	<u>PUBLIC SECTOR COMPANIES & CORPORATIONS</u>		
i)	NATIONAL DEVELOPMENT FINANCE CORPORATION	7,160	0.04
ii)	NIB BANK LIMITED	187,100	1.00
iii)	PAKISTAN KUWAIT INVESTMENT COMPANY (PVT) LTD.	66,000	0.35
iv)	STATE LIFE INSURANCE CORP. OF PAKISTAN	318,658	1.71
6)	<u>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS</u>	Nil	Nil
GENERAL PUBLIC (984 Shareholders)		1,163,105	6.22
Shareholders of the Company 1005		Total:-	18,700,000
			100.00
7)	<u>SHAREHOLDERS HOLDING 10% OR MORE</u>		
i)	MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
ii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
iii)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96

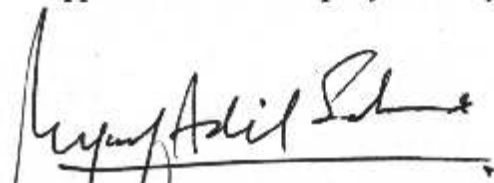
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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 **NAGINA COTTON MILLS LIMITED** to comply with the Clause XIV of the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the Lahore Stock Exchange 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 the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such controls.

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 as applicable to the company for the year ended June 30, 2008.


Chartered Accountants
Karachi *M. Y. A. S.*
25 SEP 2008

AUDITORS' REPORT TO THE MEMBERS

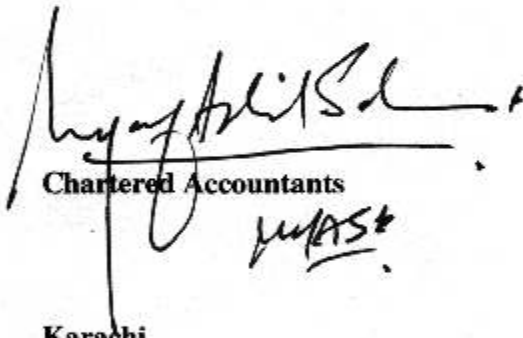
We have audited the annexed balance sheet of **NAGINA COTTON MILLS LIMITED** (the Company) as at June 30, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes 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 include 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 accounts 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, 2008 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.



Chartered Accountants

M. Yousuf Adil Saleem

Karachi

Dated : 25 SEP 2008

BALANCE SHEET AS AT JUNE 30, 2008

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
SHARE CAPITAL AND RESERVES			
Authorised share capital	3	<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid up			
Ordinary shares	3	187,000,000	187,000,000
Preference shares	3	-	120,930,000
Reserves	4	217,320,317	253,047,641
		404,320,317	560,977,641
NON-CURRENT LIABILITIES			
Long term financing	5	235,850,000	243,967,783
Liabilities against assets subject to finance lease	6	2,056,309	2,614,752
Deferred liabilities	7	70,869,661	65,694,138
CURRENT LIABILITIES			
Trade and other payables	8	68,401,498	76,574,736
Profit / mark-up payable	9	14,361,165	12,637,840
Short term bank borrowings	10	322,778,058	199,621,578
Current portion of non-current liabilities	11	69,471,656	48,477,455
		475,012,377	337,311,609
CONTINGENCIES AND COMMITMENTS			
	12		
		<u>1,188,108,664</u>	<u>1,210,565,923</u>

The annexed notes form an integral part of these financial statements.



Shahzada Ellahi Shaikh
Director

September 25, 2008

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	547,022,551	600,722,138
Investment properties	14	17,717,999	18,174,106
Long term investments	15	142,231,456	134,532,720
Long term deposits		1,420,400	2,477,900
CURRENT ASSETS			
Stores and spares	16	25,342,352	23,790,768
Stock in trade	17	282,318,249	185,146,611
Trade debts	18	143,312,163	166,931,092
Advances	19	15,012,733	11,966,674
Short term deposits and prepayments	20	2,385,922	427,866
Other receivables	21	9,299,498	12,765,098
Other financial asset	22	-	45,205,014
Cash and bank balances	23	2,045,341	8,425,936
		479,716,258	454,659,059
		<u>1,188,108,664</u>	<u>1,210,565,923</u>



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2008

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
Sales - net	24	1,800,297,573	1,527,037,681
Cost of goods sold	25	(1,658,930,961)	(1,363,592,543)
Gross profit		141,366,612	163,445,138
Other operating income	26	18,372,016	15,525,685
		159,738,628	178,970,823
Distribution cost	27	(28,279,044)	(24,149,384)
Administrative expenses	28	(47,871,405)	(43,084,779)
Workers' profit participation fund		(712,372)	(2,986,504)
Workers welfare fund		(257,330)	(1,180,995)
Finance cost	29	(83,422,049)	(74,002,207)
Share of profit from associated undertakings		13,412,724	21,315,271
Profit before taxation		12,609,152	54,882,225
Provision for taxation	30		
Current		9,000,000	7,700,000
Deferred		2,500,000	4,000,000
		(11,500,000)	(11,700,000)
Profit for the year		1,109,152	43,182,225
Earnings per share - Basic and diluted	31	(0.41)	1.52

The annexed notes form an integral part of these financial statements

September 25, 2008


Shahzada Ellahi Shaikh
Director


Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30,2008

	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	12,609,152	54,882,225
Adjustments for :		
Depreciation	60,009,442	66,027,492
Provision for gratuity	8,013,600	5,569,231
(Gain) on disposal of property, plant and equipment	(1,700,564)	(340,421)
Unrealized (gain) on revaluation of investment	-	(205,014)
Share of profit from associated undertakings	(13,412,724)	(21,315,271)
(Gain) on disposal of investments	(2,163,345)	-
Finance cost	83,422,049	74,002,207
	146,777,610	178,620,449
Decrease / (increase) in current assets		
Stores and spares	(1,551,584)	(1,650,097)
Stock in trade	(97,171,638)	91,033,026
Trade debts	23,618,929	(1,802,292)
Advances	(3,827,960)	6,133,725
Short term deposits and prepayments	(683,056)	511,948
Other receivables	3,465,600	5,422,940
Decrease in current liabilities		
Trade and other payables	(8,173,238)	(4,727,049)
	(84,322,947)	94,922,201
Cash generated from operations	62,454,663	273,542,650
Financial charges paid	(81,698,724)	(77,864,205)
Payment for gratuity	(5,338,077)	(6,364,668)
Taxes paid	(8,218,099)	(12,056,593)
Net cash (used in) / from operating activities	A (32,800,237)	177,257,184
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	21,694,218	858,000
Fixed capital expenditure	(23,177,642)	(19,137,982)
Long term deposits	(217,500)	(34,400)
(Purchase) of investment held for trading	-	(45,000,000)
Proceed for disposal of investment held for trading	47,368,359	-
Dividend received	5,713,988	9,895,493
Net cash from / (used in) investing activities	B 51,381,423	(53,418,889)

2008
Rupees

2007
Rupees

C. CASH FLOWS FROM FINANCING ACTIVITIES

Redemption of preference shares	(120,930,000)	-
Long term loans obtained	55,400,000	7,400,000
Repayment of long term loans	(43,135,566)	(41,464,337)
Repayment of liabilities against assets subject to finance lease	(2,616,219)	(2,299,247)
Short term finance-net	(7,809,508)	(150,572,363)
Payment of dividend	(36,836,476)	(31,229,339)
Net cash (used in) financing activities	C <u>(155,927,769)</u>	<u>(218,165,286)</u>
Net (decrease) in cash and cash equivalent (A+B+C)	(137,346,583)	(94,326,991)
Cash and cash equivalent at beginning of the year	<u>(15,470,914)</u>	78,856,077
Cash and cash equivalent at end of the year	<u>(152,817,497)</u>	<u>(15,470,914)</u>
<i>Cash and cash equivalent</i>		
Cash and bank balances	2,045,341	8,425,936
Short term running finances	(119,553,410)	(16,812,539)
Book overdraft	(35,309,428)	(7,084,311)
	<u>(152,817,497)</u>	<u>(15,470,914)</u>

Non cash transactions

Additions to vehicles during the year amounting to Rs.2,637,500/- were financed by new finance leases.

The annexed notes form an integral part of these financial statements

September 25, 2008


Shahzada Ellahi Shaikh
Director


Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2008

	<i>Share capital</i>	<i>Preference shares</i>	<i>Capital reserve</i>	<i>Capital redemption reserve fund</i>	<i>Unappropriated profit</i>	<i>Total</i>
	----- Rupees -----					
Balance as at July 1, 2006	187,000,000	120,930,000	12,104,417	120,930,000	241,287,204	682,251,621
Final Dividend for the year ended 30 June 2006						
-Cash dividend @ 8.8%	-	-	-	-	(16,456,000)	(16,456,000)
-Dividend in specie	-	-	-	-	(133,226,866)	(133,226,866)
Dividend @ 13% on preference shares	-	-	-	-	(14,773,339)	(14,773,339)
Profit for the year	-	-	-	-	43,182,225	43,182,225
Balance at June 30, 2007	<u>187,000,000</u>	<u>120,930,000</u>	<u>12,104,417</u>	<u>120,930,000</u>	<u>120,013,224</u>	<u>560,977,641</u>
Final Dividend for the year ended 30 June 2007						
-Cash dividend @ 15%	-	-	-	-	(28,050,000)	(28,050,000)
Dividend @ 13% on preference shares						
for the six months ended December 31, 2007	-	-	-	-	(7,860,450)	(7,860,450)
for the period from Jan 01 to Jan 21, 2008	-	-	-	-	(926,026)	(926,026)
					(8,786,476)	(8,786,476)
Transfer to Capital redemption reserve fund from unappropriated profit as at December 31, 2007	-	-	-	120,930,000	(120,930,000)	-
Redemption of preference shares	-	(120,930,000)	-	-	-	(120,930,000)
Profit for the year	-	-	-	-	1,109,152	1,109,152
Balance at June 30, 2008	<u>187,000,000</u>	<u>-</u>	<u>12,104,417</u>	<u>241,860,000</u>	<u>(36,644,100)</u>	<u>404,320,317</u>

The annexed notes form an integral part of these financial statements

September 25, 2008


Shahzada Ellahi Shaikh
Director


Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

1. GENERAL INFORMATION

The Company is limited by shares incorporated in Pakistan on May 16, 1967, and is quoted on Karachi and Lahore Stock Exchanges of Pakistan with registered office at Karachi in the province of Sindh. The principal business of the Company is manufacture and sale of cotton and blended yarn. The Mills are located in Kotri Industrial Trading Estate in the Province of Sindh.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Basis of preparation

These financial statements have been prepared under 'historical cost convention', modified by certain financial instruments at fair value, staff retirement benefits at present value and investment in associates accounted for using equity method.

2.3 Standards and interpretations to published approved accounting standards that are not yet effective

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increased disclosures in certain cases.

IFRS 7 - Financial Instruments: Disclosures	April 28, 2008
IFRS 8 - Operating Segments	January 01, 2009
IAS 29 - Financial Reporting in Hyperinflationary Economies	April 28, 2008
IFRIC 12 - Service	January 01, 2008
IFRIC 13 - Customer Loyalty Programs	July 1, 2008

IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2008
IFRIC 15 - Agreements for the Construction of Real Estate	January 01, 2009
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	October 01, 2008

2.4 Accounting for leases

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

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account.

2.5 Employee benefit cost - defined benefit plan

The Company operates an unfunded gratuity scheme for its confirmed employees who have completed the minimum qualifying period of service as defined under the respective scheme. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account.

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

Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Company's gratuity is amortized over the average expected remaining working lives of the employees.

Details of the scheme are given in note 7.1 to these financial statements.

2.6 Trade and other payable

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

2.7 Provisions

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

2.8 *Property, plant and equipment*

Operating assets

Property, plant and equipment (PPE) except freehold land, are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land is stated at cost.

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

Depreciation is charged to income applying the reducing balance method at the rates specified in PPE note.

Depreciation on additions during the period is charged on the basis of whole period while no depreciation is charged on deletions during the year. However, major capitalization of project cost are depreciated on proportionate basis for the period of use.

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

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

Gains and losses on disposal of assets are included in current income as and when incurred.

Capital work in progress

All cost / expenditure connected with specific assets incurred during the implementation period are carried under this head. These are transferred to specific assets as and when assets are available for use.

2.9 *Investment properties*

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Company comprises land and buildings which are valued using the cost method i.e. at cost less accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on reducing balance method so as to write off the depreciable amount of building over its estimated useful life at the rate of 5% per annum. Depreciation on additions to investment property is charged on the basis of whole year while no depreciation is charged on deletions during the year.

2.10 *Investments*

Regular way purchase or sale of investments

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

Investments in Associates

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

Available for sale investments

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

Financial assets at fair value through profit or loss

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

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are initially recognized at cost inclusive of transaction cost and are subsequently carried at amortized cost using effective interest rate method.

Derecognition

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

2.11 Stores and spares

These are valued at lower of moving average cost or net realizable value, except furnace oil, diesel and lubricants which are valued at lower of first in first out basis or net realizable value less allowance for obsolete and slow moving items. Items in transit are valued at cost accumulated upto the balance sheet date.

2.12 Stock in trade

These are valued at lower of average cost and net realisable value applying the following basis:

- Raw material
- Work in process
- Finished goods
- Waste

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads. Net realizable value signifies estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessary to make the sale.

2.13 Trade debts and other receivables

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

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise of cash in hand, balances with banks, short term running finances and book overdraft.

2.15 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

2.16 Financial instruments

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

2.17 Revenue recognition

Sales are recorded on dispatch of goods.

Dividend is recognized when right to receive is established. Profit on PLS saving account is recognized on accrual basis.

Rental income is recognized on accrual basis.

2.18 *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

2.19 *Taxation*

Current

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

Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of Technical Release – 27 of Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2.20 *Foreign currency translations*

Foreign currency transactions are translated into Pak Rupees at the rates prevailing at the date of transaction except for those covered by forward contracts, which are translated at contracted rates. At each balance sheet date, monetary asset and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences are included in profit and loss for the year.

2.21 *Offsetting of financial assets and financial liabilities*

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

2.22 Critical judgments in applying the accounting policies

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows :

- i. Deferred taxation (note 2.19 & 7.2)
- ii. Retirement benefits (note 2.5 & 7.1)
- iii. Investment in associates (note 2.10 & 15)

2008 *2007*
Rupees *Rupees*

3. SHARE CAPITAL

3.1 Authorised share capital

50,000,000 Ordinary and preference shares of Rs.10/- each	500,000,000	500,000,000
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3.2 Issued, subscribed and paid-up capital fully paid ordinary shares of Rs.10/- each.

	<i>2008</i>	<i>2007</i>			
	<i>No. of Shares</i>				
3,133,000	3,133,000		Issued for cash	31,330,000	31,330,000
<u>15,567,000</u>	<u>15,567,000</u>		Issued as bonus shares	155,670,000	155,670,000
<u>18,700,000</u>	<u>18,700,000</u>			187,000,000	187,000,000
 <i>13% Cumulative Preference Shares of Rs.5/- each</i>					
<u>-</u>	<u>24,186,000</u>			<u>-</u>	<u>120,930,000</u>

3.3 Following ordinary shares were held by the associates of the Company as at the balance sheet date: -

	<i>No. of ordinary share of Rs.10/- each</i>	
	<i>2008</i>	<i>2007</i>
<i>Associates</i>		
ARH (Private) Limited	1,609,642	1,609,642
Monell (Private) Limited	501,600	20,900
Haroon Omer (Private) Limited	480,600	-
ICARO (Private) Limited	480,700	-
Ellahi International (Private) Limited	-	1,400,000
	3,072,542	3,030,542

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
3.4 Reconciliation of number of Cumulative preference shares of Rs.5/- each.			
At July 01, 2007		24,186,000	24,186,000
Less: Redeemed during the year		(24,186,000)	-
At June 30, 2008		-	24,186,000

3.4.1 Cumulative preference shares were redeemed on January 21, 2008 upon completing five years period from the date of its issue on January 21, 2003.

4. RESERVES

Capital Reserve			
Book difference of capital under Scheme of arrangement for amalgamation		12,104,417	12,104,417
Preference shares capital redemption reserve		241,860,000	120,930,000
Revenue Reserve			
Accumulated loss / Unappropriated profit		(36,644,100)	120,013,224
		217,320,317	253,047,641

5. LONG TERM FINANCING

Secured			
Custom debentures	5.1	-	-
Long term loans	5.2	235,850,000	243,967,783
		235,850,000	243,967,783

5.1 Custom debentures

Opening balance-current portion	5.1.1	2,832,155	2,832,155
Amount due shown under current liabilities		(2,832,155)	(2,832,155)
		-	-

5.1.1 Debentures have been issued in favour of collector of customs to cover deferred payment of custom duty on imported machinery. Debentures are subject to surcharge @ 11% per annum. Repayment is secured against a bank guarantee.

5.2 Long term loans - Secured

From banking companies and other financial institutions

	Term Loan	Term Loan	Term Loan	Term Loan	Term Loan	Term Loan	2008 Rupees	2007 Rupees
Opening balance	4,703,349	145,955,000	54,045,000	61,830,940	20,569,060	-	287,103,349	321,167,686
Obtained during the year	-	-	-	5,400,000	-	50,000,000	55,400,000	7,400,000
	4,703,349	145,955,000	54,045,000	67,230,940	20,569,060	50,000,000	342,503,349	328,567,686
Repaid during the year	(3,135,566)	(29,191,000)	(10,809,000)	-	-	-	(43,135,566)	(41,464,337)
	1,567,783	116,764,000	43,236,000	67,230,940	20,569,060	50,000,000	299,367,783	287,103,349
Payable within one year shown under current liabilities	(1,567,783)	(29,191,000)	(10,809,000)	(16,807,736)	(5,142,264)	-	(63,517,783)	(43,135,566)
	-	87,573,000	32,427,000	50,423,204	15,426,796	50,000,000	235,850,000	243,967,783
Principal amount	15,677,830	145,955,000	54,045,000	67,230,940	20,569,060	50,000,000		
Commencing from	March 2004	July 2007	July 2007	August 2008	August 2008	September 2009		
Markup rate	6 months	3 months	Fixed rate	3 months	Fixed rate	6 months		
	T.Bill+2.25 %	KIBOR+1%	7%	KIBOR+1.4%	7%	KIBOR+2%		
Installment interval	half yearly	quarterly	quarterly	quarterly	quarterly	Bi-annually		
No. of installment	10	20	20	16	16	2		
Sub note	5.2.1	5.2.2	5.2.3	5.2.4	5.2.5	5.2.6		

5.2.1 The loan is secured by charge on fixed assets ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and personal guarantee of sponsor directors.

5.2.2 The loan is secured by charge on fixed assets of the Company ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.3, 5.2.4 and 5.2.5), personal guarantee of the sponsor directors of the Company and lien on the import documents of title to goods.

5.2.3 The Company swap a portion from Term Finance of Rs200 million (Refer Note 5.2.2) under the SMED circular number 19 of 2006 dated 4 September 2006 of the State Bank of Pakistan pertaining to the SBP LTF-EOP Scheme. The loan is secured against the securities mentioned in Note 5.2.2.

5.2.4 The loan is secured by first charge on all present and future land and buildings and hypothecation charge on plant and machinery of the Company ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.2, 5.2.3 and 5.2.5). Unavailed facility as at June 30, 2008 is amounting to Rs.37.2 million (2007: Rs.42.6 million).

5.2.5 The Company swap a portion from Term Finance of Rs125 million (Refer Note 5.2.4) under the SMED circular number 19 of 2006 dated 4 September 2006 of the State Bank of Pakistan pertaining to the SBP LTF-EOP Scheme. The loan is secured against the securities mentioned in Note 5.2.4

5.2.6 The loan is secured by charge on fixed assets of the Company excluding land and building, pledge of shares of Prosperity Weaving Mills Ltd and Ellcot Spinning Mills Ltd respectively and personal guarantee of sponsor directors.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

These represent vehicles acquired under finance lease from banks. The effective financing rate used as discounting factor is ranging from 8.85 % to 13.5% per annum (2007: 8.85% p.a).

Taxes, repairs, replacement and insurance costs are borne by the Company.

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

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows: -

	2008		2007	
	<i>Minimum lease payments</i>	<i>Present value</i>	<i>Minimum lease payments</i>	<i>Present value</i>
	< ----- Rupees ----- >			
Within one year	3,497,480	3,121,718	2,881,736	2,509,734
After one year but not more than five years	2,436,091	2,056,309	2,715,868	2,614,752
Total minimum lease payments	5,933,571	5,178,027	5,597,604	5,124,486
Less: Amount representing finance charges	(755,544)	-	(473,118)	-
Present value of minimum lease payments	5,178,027	5,178,027	5,124,486	5,124,486
Less: Current portion	(3,121,718)	(3,121,718)	(2,509,734)	(2,509,734)
	<u>2,056,309</u>	<u>2,056,309</u>	<u>2,614,752</u>	<u>2,614,752</u>

	<i>Note</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
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7. DEFERRED LIABILITIES

Provision for gratuity	7.1	17,369,661	14,694,138
Deferred taxation	7.2	53,500,000	51,000,000
		<u>70,869,661</u>	<u>65,694,138</u>

7.1 Provision for gratuity

Provision for gratuity	<u>17,369,661</u>	<u>14,694,138</u>
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Amount recognised in the profit and loss account is as follows:

Current service cost	3,379,652	4,175,169
Interest cost	1,469,414	1,394,062
Actuarial (gains) / losses recognised	3,164,534	-
	<u>8,013,600</u>	<u>5,569,231</u>

	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
Movements in the net liability is as follows:		
Opening balance	14,694,138	15,489,575
Charge for the year	8,013,600	5,569,231
Payment made during the year	(5,338,077)	(6,364,668)
Closing balance	17,369,661	14,694,138

The amounts recognized in the balance sheet are as follows: -

Present value of defined benefit obligation	17,369,661	14,694,138
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The principal assumptions used in the valuation of gratuity are as follows: -

	<i>2008</i>	<i>2007</i>
Discount rate	12%	9%
Expected rate of salary increase	10%	8%
Average expected remaining working life of the employees	15 years	10 years

Latest actuarial valuation was carried out as on September 01, 2008.

Comparison for five years

	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
As at June 30					
Present value of defined benefit obligation	17,369,661	14,694,138	15,489,575	16,786,884	15,466,173
Actuarial losses	3,164,534	-	-	438,601	-

	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
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7.2 Deferred Taxation

This comprises of the following: -

Deferred tax liability on taxable temporary differences:

Accelerated tax deprecation allowance	59,403,610	63,917,969
Finance leases	348,558	66,258
Investment in associates	2,565,784	2,500,000
	62,317,952	66,484,227

Deferred tax asset on deductible temporary differences:

Provision for bad debts	(614,817)	(623,653)
Assessed losses	(4,607,181)	(11,774,805)
Provision for funded gratuity	(3,595,954)	(3,085,769)
	(8,817,952)	(15,484,227)

Opening balance	(51,000,000)	(47,000,000)
Balance provided during the year	2,500,000	4,000,000

Deferred tax liability worked out after taking effect of income covered under presumptive tax regime.

	<i>Note</i>	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
8. TRADE AND OTHER PAYABLES			
Creditors		10,945,584	10,653,334
Accrued liabilities		36,691,338	31,173,068
Unearned rent		3,328,371	6,800,480
Deposit from customers and tenants		2,487,908	5,862,540
Unclaimed dividend		3,768,356	2,881,927
Workers' profit participation fund	8.1	712,372	3,119,958
Workers welfare fund		1,438,325	1,180,995
Central excise duty on bank borrowings		7,500,065	7,500,065
Preference shares redemption liability and dividend		1,493,675	6,934,424
Other		35,504	467,945
		68,401,498	76,574,736
8.1 Workers' profit participation fund			
Opening balance		3,119,958	1,879,293
Interest on fund utilized in the Company's business		287,472	300,275
		3,407,430	2,179,568
Allocation for the year		712,372	2,986,504
		4,119,802	5,166,072
Paid to workers		(3,407,430)	(2,046,114)
		712,372	3,119,958
9. PROFIT / MARKUP PAYABLE			
Secured			
Long term financing			
Custom debentures		4,626,878	4,245,762
Long term loans		3,978,215	4,531,618
		8,605,093	8,777,380
Liabilities against assets subject to finance lease		35,619	4,933
Short term borrowings		5,720,453	3,855,527
		14,361,165	12,637,840
10. SHORT TERM BORROWINGS - SECURED			
- Banking Companies			
Borrowings			
Foreign currency finance		95,019,391	173,722,096
Term finance		69,000,000	-
Cash finances		3,895,829	2,002,632
		167,915,220	175,724,728
Running finance		119,553,410	16,812,539
Book overdraft		35,309,428	7,084,311
		322,778,058	199,621,578

10.1 Company can avail foreign currency, term, cash and running finance facilities from various banks aggregating to Rs.1,095 million (2007 : Rs. 1,113 million). These borrowings are secured against hypothecation of stock and floating and pari passu charge on present and future current assets , demand promissory notes, personal guarantee of the Directors and lien on export orders / contracts. These are subject to variable markup ranging from one, three and six months KIBOR + 0.5% to 1.5% (2007 : one, three and six months KIBOR+0.5% to 1.5%) and fixed markup of 13.10% (2007: 5.97% to 10.75% per annum) payable on quarterly basis.

	<i>Note</i>	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
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11. CURRENT PORTION OF NON CURRENT LIABILITIES

Custom debentures	5.1	2,832,155	2,832,155
Long term loans	5.2	63,517,783	43,135,566
Liabilities against assets subject to finance lease	6	3,121,718	2,509,734
		<u>69,471,656</u>	<u>48,477,455</u>

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

(a) Guarantee of Rs.10,000,000/- (2007 : Rs.8,000,000/-) to Excise Department for infrastructure fee on behalf of the Company.

(b) Irrevocable revolving letter of credit issued in favour of Sui Gas Company Limited amounting to Rs.19,862,500/- (2007 : Rs.19,862,500/-).

12.2 Commitments

Stores and spares	4,213,805	5,731,551
Raw materials	32,810,100	16,179,107

13. PROPERTY, PLANT AND EQUIPMENT

Operating assets	13.1	543,040,674	598,404,625
Capital work in progress			
Civil work		2,292,401	2,295,973
Machinery		1,689,476	21,540
		<u>3,981,877</u>	<u>2,317,513</u>
		<u>547,022,551</u>	<u>600,722,138</u>

13.1 Operating assets

Particulars	Cost at July 01, 2007	Additions/ (Disposals)/ (Transfer)	Cost at June 30, 2008	Accumulated depreciation at July 01, 2007	Depreciation charge for the year / (Transfer)	Accumulated depreciation at June 30, 2008	Written down value at June 30, 2008	Annual rate of Dep. %
<i>Own</i>								
Land - free hold	7,400,318	-	7,400,318	-	-	-	7,400,318	-
Commercial building on free hold land	13,917,064	-	13,917,064	6,678,846	361,911	7,040,757	6,876,307	5
Land - freehold	127,383	-	127,383	-	-	-	127,383	-
Mills buildings on freehold land	118,920,304	312,746	119,233,050	60,166,886	5,906,616	66,073,502	53,159,548	10
Other buildings on freehold land	25,075,632	-	25,075,632	8,942,545	806,654	9,749,199	15,326,433	5
Machinery and equipment	1,032,811,649	17,272,293 (60,867,896)	989,216,046	569,937,062	46,132,511 (42,046,125)	574,023,448	415,192,598	10
Electric installations and equipment	49,579,450	35,000	49,614,450	25,874,670	2,373,979	28,248,649	21,365,801	10
Gas installations	3,264,556	-	3,264,556	1,480,620	178,394	1,659,014	1,605,542	10
Office equipment	9,413,821	893,534 (225,250)	10,082,105	5,944,509	426,319 (125,594)	6,245,234	3,836,871	10
Furniture and fixtures	9,873,596	1,164,874	11,038,470	5,345,176	569,329	5,914,505	5,123,965	10
Vehicles	18,568,365	1,834,833 (3,757,202)	16,645,996	11,617,199	1,542,755 (2,684,975)	10,474,979	6,171,017	20
	1,288,952,138	21,513,280 (64,850,348)	1,245,615,070	695,987,513	58,298,468 (44,856,694)	709,429,287	536,185,783	
<i>Asset held under finance lease</i>								
Vehicles	8,500,000	2,669,760	11,169,760	3,060,000	1,254,869	4,314,869	6,854,891	20
<i>2008 Rupees</i>	1,297,452,138	24,183,040 (64,850,348)	1,256,784,830	699,047,513	59,553,337 (44,856,694)	713,744,156	543,040,674	
<i>2007 Rupees</i>	1,293,893,970	22,375,904 (3,089,075) (15,728,661) *	1,297,452,138	640,902,885	65,547,380 (2,571,496) (4,831,256) *	699,047,513	598,404,625	

* This represent portion of land and building rented out transferred and classified as investment properties during last year in accordance with IAS-40 Investment property. (Refer Note-14)

2008
Rupees

2007
Rupees

13.1.1 Depreciation for the year has been allocated as under:

Cost of goods manufactured	55,316,710	61,141,015
Administrative expenses	4,692,732	4,406,365
	<u>60,009,442</u>	<u>65,547,380</u>

13.1.2 Detail of disposal / deletion of assets

Description of Assets	Cost	Written Down Value	Sale Proceed	Mode of disposal	Particulars of Buyer
Plant & Machinery	60,867,897	18,821,772	19,300,000	Negotiation	Ellcot Spinning Mills Limited, Manga Mandi Raiwind Road Mouza Rossa Teshil & District Kasur (an associated undertaking)
Office Equipment	225,250	99,656	5,218	Negotiation	Prime Copier Services, Suit # 311 3rd Floor Almas Height, Block-2, Shakra-e-Faisal, Karachi.
Vehicle	303,115	43,226	55,000	Negotiation	Sultan Habib Rana, House NO 1043-E Street Kenal View Housing Society Multan Road, Lahore
Vehicle	71,600	15,954	19,000	Negotiation	Mohammad Aarzoo, House NO 8-5-2 Liaquat Avenue Model Colony Karachi
Vehicle	319,420	71,173	165,000	Destroyed by fire	New Hampshire Insurance Company, 7th floor, Dawood centre, 26 civil lines Beaumont road, Karachi
Vehicle	1,357,395	590,738	925,000	Destroyed by fire	New Hampshire Insurance Company, 7th floor, Dawood centre, 26 civil lines Beaumont road, Karachi
Vehicle	568,550	247,433	475,000	Destroyed by fire	New Hampshire Insurance Company, 7th floor, Dawood centre, 26 civil lines Beaumont road, Karachi
Vehicle	1,137,122	103,702	750,000	Destroyed by fire	E.F.U Insurance Company, 8th floor, Business Plaza Mumtaz Hassan Road, Karachi
Rupees 2008	<u>64,850,349</u>	<u>19,993,654</u>	<u>21,694,218</u>		
Rupees 2007	<u>3,089,075</u>	<u>517,579</u>	<u>858,000</u>		

14. INVESTMENT PROPERTIES

	<i>Cost at July 01, 2007</i>	<i>Additions / Transfer</i>	<i>Cost at June 30, 2008</i>	<i>Accumulated depreciation at July 01, 2007</i>	<i>Depreciation for the year</i>	<i>Transfers</i>	<i>Accumulated depreciation at June 30, 2008</i>	<i>Written down value at June 30, 2008</i>	<i>Annual Rate of Dep. %</i>
<----- Rupees ----->									
Land at Sheikhpura - freehold	751,338	-	751,338	-	-	-	-	751,338	-
Land - free hold - Lahore	8,300,631	-	8,300,631	-	-	-	-	8,300,631	-
Building on free hold land - Lahore	17,539,312	-	17,539,312	8,417,175	456,107	-	8,873,282	8,666,030	5%
	<u>26,591,281</u>	<u>-</u>	<u>26,591,281</u>	<u>8,417,175</u>	<u>456,107</u>	<u>-</u>	<u>8,873,282</u>	<u>17,717,999</u>	
	<u>10,862,620</u>	<u>15,728,661</u>	<u>26,591,281</u>	<u>3,105,807</u>	<u>480,112</u>	<u>4,831,256</u>	<u>8,417,175</u>	<u>18,174,106</u>	

14.1 Fair value of land at Sheikhpura - freehold is Rs.5,500,000/- (2007 : Rs.5,500,000) and building with land - free hold is Rs.116,000,000/-(2007 : Rs.116,000,000).

	<i>2008</i>	<i>2007</i>
<i>Note</i>	<i>Rupees</i>	<i>Rupees</i>

15. LONG TERM INVESTMENTS

Cost of investments		28,855,067	28,855,067
Share of post-acquisition profits		119,090,377	115,573,146
Less: Dividend received		(5,713,988)	(9,895,493)
		113,376,389	105,677,653
Investment in associated undertakings	15.1	142,231,456	134,532,720

15.1 Investment in associated undertakings

Investment in associated undertakings - opening balance		134,532,720	256,339,808
Share of the profit for the year from the associated undertakings		13,412,724	21,315,271
Less: Ordinary dividend		(5,713,988)	(9,895,493)
Less: Dividend in specie		-	(133,226,866)
		142,231,456	134,532,720

15.2 Detail of Company's associated undertakings as at June 30, 2008 are as follows: -

Name of associated undertakings	Place of incorporation and operation	Proportion of ownership interest		Principal Activity
		2008	2007	
Ellicot Spinning Mills Limited (ESML)	Lahore	26.09%	26.09%	Spinning
Prosperity Weaving Mills Limited (PWML)	Lahore	* 5.48%	5.48%	Weaving

* Although the Company hold less than 20% of the voting power in Prosperity Weaving Mills Limited, it exercise significant influence by virtue of common management and directorship.

The summarized financial information of the associated companies for the year ended June 30, 2008 is as follows: -

	2008		2007	
	ESML	PWML	ESML	PWML
	< ----- Rupees ----- >			
Total assets	1,806,492,637	1,557,279,092	1,689,017,293	1,570,646,996
Total liabilities	1,322,204,141	1,223,016,181	1,247,905,896	1,171,306,502
Revenues	1,828,932,219	2,746,371,590	1,594,876,385	2,681,574,672
Profit (loss) after tax	65,077,099	(65,077,583)	63,926,145	4,851,405

15.3 The investment in shares of associates are pledged against the facility of Long Term loan (Refer Note 5.2.6).

	Note	2008 Rupees	2007 Rupees
16. STORES AND SPARES			
Stores		7,063,752	6,648,411
Spares		18,278,600	17,142,357
		25,342,352	23,790,768

17. STOCK IN TRADE

Raw material			
In hand		221,840,842	120,717,645
In-transit		-	12,379,839
Work in process		17,792,683	29,238,972
Finished goods		41,292,409	20,674,219
Waste		1,392,315	2,135,936
		282,318,249	185,146,611

18. TRADE DEBTS	<i>Note</i>	<i>2008</i> <i>Rupees</i>	<i>2007</i> <i>Rupees</i>
Foreign - secured		36,289,907	83,616,787
Local - unsecured		109,992,032	86,284,081
		146,281,939	169,900,868
Provision for doubtful debts		(2,969,776)	(2,969,776)
Considered good		143,312,163	166,931,092
19. ADVANCES			
<i>- Considered good</i>			
Employees		86,509	42,023
Income tax	19.1	3,667,723	4,449,624
Suppliers		3,329,112	6,017,896
Expenses		-	562,756
Letters of credit		7,929,389	894,375
		15,012,733	11,966,674
19.1 Movement of advance tax is as under: -			
Opening balance		4,449,624	93,031
Add: Paid during the year		8,218,099	12,056,593
Less: Provision for tax		(9,000,000)	(7,700,000)
		3,667,723	4,449,624
20. SHORT TERM DEPOSITS AND PREPAYMENTS			
Short term deposits		1,306,100	-
Prepayments		1,079,822	427,866
		2,385,922	427,866
21. OTHER RECEIVABLES			
Sales tax refundable		3,008,395	3,755,052
Export rebate		-	55,562
Income tax refundable		5,361,240	8,603,078
Other receivables		929,863	351,406
		9,299,498	12,765,098

22. OTHER FINANCIAL ASSETS	Notes	2008 Rupees	2007 Rupees
<i>Investments in listed securities - held for trading - fair value through profit and loss</i>			
2008	2007		
<i>Number of Units</i>			
-	405,074	-	45,205,014
	United Growth and Income Fund (UGIF)		

23. CASH AND BANK BALANCES

Cash with banks			
In current accounts		2,042,471	8,361,794
In deposit accounts	23.1	522	1,794
Cash in hand		2,348	62,348
		<u>2,045,341</u>	<u>8,425,936</u>

23.1 Deposit account carries mark up at the rate of 10.75% per annum (2007 : 10.65% to 10.83% per annum).

24. SALES - NET	Note	Local	Export	2008	2007
		< ----- Rupees ----- >			
Yarn	24.1	1,197,374,849	515,756,087	1,713,130,936	1,467,570,458
Waste		102,288,183	-	102,288,183	72,973,726
		1,299,663,032	515,756,087	1,815,419,119	1,540,544,184
Less: Commission		(9,567,626)	(5,553,920)	(15,121,546)	(13,506,503)
		<u>1,290,095,406</u>	<u>510,202,167</u>	<u>1,800,297,573</u>	<u>1,527,037,681</u>

24.1 It includes exchange gain of Rs.644,532/- (2007 : exchange loss Rs.3,446,386/-).

25. COST OF GOODS SOLD

Opening stock - finished goods		22,810,155	15,104,691
Cost of goods manufactured	25.1	1,648,927,041	1,351,509,957
Purchase of finished goods		38,103,020	19,788,050
		<u>1,709,840,216</u>	<u>1,386,402,698</u>
Stock destroyed by fire		(8,224,531)	-
Closing stock - finished goods		(42,684,724)	(22,810,155)
		<u>1,658,930,961</u>	<u>1,363,592,543</u>

	Notes	2008 Rupees	2007 Rupees
25.1 Cost of goods manufactured			
Raw material consumed	25.1.1	1,254,255,816	984,285,107
Packing material consumed		27,049,550	23,063,665
Stores and spares consumed *		32,129,545	31,371,229
Salaries, wages and benefits	25.1.2	133,192,585	121,200,952
Fuel		125,135,850	119,191,472
Rent, rates and taxes		331,265	295,369
Insurance		4,652,706	5,280,106
Repairs and maintenance *		1,241,228	3,499,048
Depreciation	13.1.1	55,316,710	61,141,015
Doubling charges		2,268,793	1,960,469
Other manufacturing overheads		1,906,704	2,194,966
		1,637,480,752	1,353,483,398
Work in process			
Opening stock		29,238,972	27,265,531
Closing stock		(17,792,683)	(29,238,972)
		11,446,289	(1,973,441)
		1,648,927,041	1,351,509,957

25.1.1 Raw material consumed

Opening stock	120,717,645	233,809,416
Purchases-net	1,401,879,798	871,193,336
	1,522,597,443	1,105,002,752
Stock destroyed by fire	(46,500,785)	-
Closing stock	(221,840,842)	(120,717,645)
	1,254,255,816	984,285,107

25.1.2 It includes Rs.6,132,807/- (2007 : Rs.4,262,133/-) in respect of staff retirement benefits.

* Net of insurance claim received against stores and spares and damage of building due to fire.

26. OTHER OPERATING INCOME

Rental income from investment property	14,048,069	9,669,202
Gain on sale of investments - held for trading - net of commission	2,163,345	2,061,362
Scrap sales	455,120	701,048
Gain on disposal of property, plant and equipment	1,700,564	340,421
Profit on bank deposits	4,918	903,034
Reversal of provision for doubtful debts	-	1,645,604
Unrealized gain on revaluation of investments - held for trading	-	205,014
	18,372,016	15,525,685

	<i>Notes</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
27. DISTRIBUTION COST			
Freight		19,851,774	14,199,166
Stamp duty		2,367,634	2,225,771
Travelling		1,176,132	2,785,142
Export development surcharge		1,319,104	1,177,063
Quality claims		653,747	1,522,198
Distribution cost		262,600	324,800
Other		2,648,053	1,915,244
		<u>28,279,044</u>	<u>24,149,384</u>

28. ADMINISTRATIVE EXPENSES

Directors' remuneration and benefits		2,465,000	1,539,900
Staff salaries and benefits	28.1	20,311,139	18,891,435
Travelling and conveyance		735,485	478,604
Printing and stationery		1,198,612	1,285,273
Postage and telephone		2,217,881	2,307,962
Fees, subscription and periodicals		976,659	664,476
Legal and professional		296,079	1,239,050
Advertisement		321,932	39,106
Utilities - net of recoveries		2,885,152	1,810,906
Rent, rates and taxes		2,516,088	1,761,511
Insurance		1,172,708	1,202,138
Auditors' remuneration	28.2	590,000	660,000
Repairs and maintenance		1,763,295	834,070
Vehicles running and maintenance		3,916,633	4,580,816
Entertainment		775,086	566,648
Donation	28.3	800,000	128,000
Depreciation	28.4	4,692,732	4,886,477
Other		236,924	208,407
		<u>47,871,405</u>	<u>43,084,779</u>

28.1 It includes Rs.1,880,793 /- (2007 : Rs.1,307,098/-) in respect of staff retirement benefits.

28.2 Auditors' remuneration

Statutory audit fee	330,000	330,000
Certification, other statutory reporting and tax advisory services	260,000	330,000
	<u>590,000</u>	<u>660,000</u>

28.3 No director or his spouse had any interest in the donees' fund.

28.4 It includes depreciation on investment properties amounting to Rs.456,107/- (2007 : Rs.480,112/-).

	<i>Notes</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
29. FINANCE COST			
Markup / interest on			
Debentures		381,116	380,075
Long term loans		27,162,197	31,919,146
Liabilities against assets subject to finance lease		464,022	580,276
Short term borrowings including bills discounting	29.1	50,774,340	35,920,400
Workers' profit participation fund		287,472	300,275
Bank charges and commission		4,352,902	4,902,035
		83,422,049	74,002,207

29.1 It includes exchange loss of Rs.14,880,949/- (2007 : Rs.4,453,802/-).

30. TAXATION

- Current

The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001 or falls under final tax regime and hence tax has been provided under section 154 and 169 of the Income Tax Ordinance, 2001.

31. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company which is based on :-

Profit after taxation	1,109,152	43,182,225
Less: Dividend on preference shares	(8,786,476)	(14,773,339)
Earnings for the purpose of basic earnings per share	(7,677,324)	28,408,886
Weighted average number of ordinary shares	18,700,000	18,700,000
Earnings per share	(0.41)	1.52

32. REMUNERATION OF DIRECTORS AND EXECUTIVES

Chief Executive and a director are provided with free use of Company maintained car. Chief Executive is also reimbursed residential telephone and utilities bills the monetary value of which is Rs.16,410/- (2007 : Rs.17,714/-) and Rs.450,536/- (2007 : Rs.478,224/-) respectively.

	<i>Chief Executive</i>		<i>Director</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	< ----- Rupees ----- >			
Remuneration	1,440,000	642,000	440,000	400,000
Meeting fee	-	-	-	9,000
House rent allowance	360,000	288,900	198,000	180,000
Other allowances	-	-	22,000	20,000
	1,800,000	930,900	660,000	609,000
Number of persons	1	1	1	1

33. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings and directors of the Company. The Company in the normal course of business carries out transactions with various related parties. Amounts due from / to related parties and directors are shown under receivables and payables and remuneration of directors is disclosed in note 32. Other significant transactions with related parties are as follows:

<i>Relationship with the Company</i>	<i>Nature of Transactions</i>	<i>2008 Rupees</i>	<i>2007 Rupees</i>
Elcot Spinning Mills Limited			
Associated undertaking	Purchase of goods and services	10,646,737	2,519,345
	Sale of goods and services	51,635,792	36,838,713
	Rental income	480,000	480,000
	Dividend income	5,713,990	9,895,493
	Purchase of generator	1,764,000	-
Prosperity Weaving Mills Limited			
Associated undertaking	Sale of goods and services	56,401,881	642,365
	Rental income	755,000	755,000

34. PLANT CAPACITY AND ACTUAL PRODUCTION

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed and twist. It would also vary according to the pattern of production adopted in a particular year.

	<i>2008 Production Capacity Kgs.</i>	<i>2007 Kgs.</i>	<i>2008 Actual Production Kgs.</i>	<i>2007 Kgs.</i>
Coarse	3,755,315	3,755,315	3,309,637	3,669,400
Medium	2,133,701	2,133,701	7,396,625	7,335,440
Fine	256,043	256,043	557,117	153,047
	6,145,059	6,145,059	11,263,379	11,157,887
			<i>2008</i>	<i>2007</i>
Total number of spindles installed			46,428	46,428
Total number of spindles worked			46,428	46,428
Number of shifts per day			3	3
Actual number of shifts in a year			1,088.5	1,091

35 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 25, 2008 by the Board of Directors of the Company.

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The effective interest rates on its financial assets and liabilities have been disclosed in the respective notes to the financial statements.

	<i>Interest bearing</i>			<i>Non-Interest bearing</i>		<i>Total</i>
	<i>Maturity upto one year</i>	<i>Maturity after one year but within five years</i>	<i>Sub Total</i>	<i>Maturity upto one year</i>	<i>Maturity after one year but within five years</i>	
<----- Rupees ----->						
FINANCIAL ASSETS						
Long term deposits	-	-	-	-	1,420,400	1,420,400
Trade debts	-	-	-	143,312,163	-	143,312,163
Advances	-	-	-	11,345,010	-	11,345,010
Other receivables	-	-	-	929,863	-	929,863
Cash and bank balances	522	-	522	2,044,819	-	2,045,341
2008	522	-	522	157,631,855	1,420,400	159,052,777
2007	1,794	-	1,794	184,336,752	1,420,400	185,758,946
FINANCIAL LIABILITIES						
Long term loans	63,517,783	235,850,000	299,367,783	-	-	299,367,783
Liabilities against assets subject to finance lease	3,121,718	2,056,309	5,178,027	-	-	5,178,027
Custom debentures	2,832,155	-	2,832,155	-	-	2,832,155
Trade and other payables	-	-	-	60,434,522	-	60,434,522
Short term borrowings	322,778,058	-	322,778,058	-	-	322,778,058
Profit / markup payable	-	-	-	14,361,165	-	14,361,165
2008	392,249,714	237,906,309	630,156,023	74,795,687	-	704,951,710
2007	248,099,033	246,582,535	494,681,568	89,212,576	-	583,894,144
On balance sheet gap - 2008	(392,249,192)	(237,906,309)	(630,155,501)	82,836,168	1,420,400	(545,898,933)
On balance sheet gap - 2007	(248,097,239)	(246,582,535)	(494,679,774)	94,066,676	2,477,900	(398,135,198)

36.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets, the financial asset which are subject to credit risk amounted to Rs.123,687,305 (2007 : Rs.96,685,999/-). Company believes that it is exposed to major concentration of credit risk in the textile sector. Management monitors and limits the Company's exposure of credit risk by limiting transactions with specific counter parties and continually assessing their credit worthiness.

36.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Company is however exposed to interest rate risk in case of long term loan and short term borrowings. The rate of interest / markup and their maturities are disclosed in the respective notes.

36.3 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

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

36.4 Liquidity risk

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

36.5 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. As at June 30, 2008, the total foreign currency risk exposure was Rs.36,298,907/- (2007: Rs. 83,616,787/-) in respect of trade debts.

Foreign exchange is the risk of loss through changes in foreign currency exchange rates. The Company is exposed to foreign exchange risk due to transactions denominated in foreign currencies.

37. CAPITAL DISCLOSURE

The objective of the Company when managing capital is to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

The capital structure of the Company consists of share capital and reserves as well as debts of the Company. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend paid to the shareholders or issue new shares. The Company's overall strategy remain unchanged from 2007.

38. GENERAL

38.1 Figures have been rounded off nearest to Rupee.

38.2 Financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

September 25, 2008



Shahzada Ellahi Shaikh
Director



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

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

PATTERN OF SHAREHOLDING

1. Incorporation Number

0002500

2. Name of the Company

NAGINA COTTON MILLS LTD.

3. Pattern of holding of the shares held by the shareholders as at

30-06-2008

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
398	1	100	14,891
328	101	500	91,044
79	501	1,000	64,110
143	1,001	5,000	334,078
23	5,001	10,000	151,482
8	10,001	15,000	95,912
4	15,001	20,000	69,802
2	20,001	25,000	40,396
-	25,001	30,000	-
4	30,001	35,000	130,368
3	35,001	40,000	112,128
1	40,001	45,000	41,000
1	45,001	50,000	46,000
-	50,001	65,000	-
1	65,001	70,000	66,000
-	70,001	185,000	-
1	185,001	190,000	187,100
-	190,001	315,000	-
1	315,001	320,000	318,658
-	320,001	400,000	-
1	400,001	405,000	401,009
-	405,001	480,000	-
2	480,001	485,000	961,300
-	485,001	500,000	-
1	500,001	505,000	501,600
-	505,001	1,605,000	-
1	1,605,001	1,610,000	1,609,642
-	1,610,001	4,480,000	-
2	4,480,001	4,485,000	8,963,080
-	4,485,001	4,500,000	-
1	4,500,001	4,505,000	4,500,400

1,005

Total:-

18,700,000

5. Categories of Shareholders	Shares Held	Percentage
5.1 Directors, Chief Executive Officer, and their spouse and minor children.		
MR. SHAIKH ENAM ELLAHI	401,009	2.14
MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.97
MRS. HUMAIRA SHAHZADA	4,248	0.02
MRS. MONA SHAUKAT	4,248	0.02
MRS. SHAISTA SHAFQAT	4,248	0.02
MR. MUNAWAR IQBAL	2	0.00
MR. S.M. YUSUF	1,100	0.01
MR. KHAWAJA MUHAMMAD ALI	500	0.00
	<u>13,878,835</u>	<u>74.22</u>
5.2 Associated Companies, undertakings and related parties		
M/S. HAROON OMER (PVT) LIMITED	480,600	2.57
M/S. MONELL (PVT) LIMITED	501,600	2.68
M/S. ICARO (PVT) LIMITED	480,700	2.57
M/S. ARH (PVT) LIMITED	1,609,642	8.61
	<u>3,072,542</u>	<u>16.43</u>
5.3 NIT and ICP		
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	2,546	0.01
NBP TRUSTEE-NI(U)T (LOC) FUND	2,624	0.01
INVESTMENT CORPORATION OF PAKISTAN	1,430	0.01
	<u>6,600</u>	<u>0.03</u>
5.4 Banks Development Financial Institutions, Non Banking Financial Institutions.		
	262,884	1.41
	<u>262,884</u>	<u>1.41</u>
5.5 Insurance Companies		
	318,658	1.70
	<u>318,658</u>	<u>1.70</u>
5.6 Modarabas and Mutual Funds		
	-	0.00
	<u>-</u>	<u>0.00</u>
5.7 Shareholders Holding 10% or more		
MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
	<u>13,463,480</u>	<u>72.00</u>
5.8 General Public		
a. Local	1,154,701	6.18
b. Foreign	Nil	Nil
5.9 Others		
	5,780	0.03
TOTAL:-	<u><u>18,700,000</u></u>	<u><u>100.00</u></u>

FORM OF PROXY

The Secretary,
NAGINA COTTON MILLS LTD.
 2nd Floor, Shaikh Sultan Trust Building No. 2,
 26-Civil Lines, Beaumont Road,
 Karachi – 75530

I/We _____ of _____ being member(s) of **NAGINA COTTON 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 41st Annual General Meeting of the Company to be held on October 29, 2008 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 _____ 2008

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.