

# C O N T E N T S



## ***QUALITY TEXTILE MILLS LIMITED***

### ***19<sup>TH</sup> ANNUAL REPORT***

***2007***

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## Company Information

Board of Directors	Mr. Noor Muhammad Hashim Mr. Tayyab Noor Muhammad Mr. Muhammad Younus Hashim Mr. Imran M. Younus Miss. Fiza Chaudhri Mr. Muhammad Idris Khokhar Mr. Ahmed Musa (Resigned on 15th September 2007) Miss. Ambrin Noor Mohammad (Appointed in place of Mr. Ahmed Musa on 15th September 2007)	Chairman / Chief Executive Director Director Director Director Director Executive Director Director
Audit Committee	Mr. Tayyab Noor Muhammad Mr. Muhammad Younus Hashim Mr. Imran M. Younus	Chairman Member Secretary
Chief Financial Officer / Company Secretary	Mr. Atif Khalil	
Bankers	Bank Al-Habib Limited Habib Metropolitan Bank Limited Habib Bank Limited Citibank, N.A	
Auditors	M. Yousuf Adil Saleem & Co. Chartered Accountants	
Legal Advisor	M. Hassan Akbar	
Registered Office	24, 2nd Floor, Ali Bhai Centre, 233-A, P.E.C.H.S, Block-2, Karachi. PABX : 0092-21-4538655-4538788-4529325 Fax : 0092-21-4538799 Website: www.qualitytextile.com Email : qualitytextilemills@yahoo.com Email : yarn@qualitytextile.com	
Business Office	15, 1st Floor, Ali Bhai Centre, 233-A, P.E.C.H.S, Block-2, Karachi.	
Mills	26KM, Sheikhpura Faisalabad Road, Ferozwattowan Distt. Sheikhpura. Fax: 0563-731307 Tel: 0563-731751 & 0563-731341 Email: qualitytextilemillskp@yahoo.com	

# Notice of Annual General Meeting

Notice is hereby given that the 19th Annual General Meeting of the shareholders of Quality Textile Mills Limited will be held on Friday October 12, 2007 at 09:30 A.M. at its Registered Office 24, Ali Bhai Centre, 2nd Floor, 233-A, Block-2, P.E.C.H.S., Shahrah-e-Quaideen, Karachi to transact the following business:

1. To confirm the minutes of last Annual General Meeting held on October 21, 2006.
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors and Directors Reports thereon, for the year ended June 30, 2007.
3. To approve the appointment of auditors and to fix their remuneration for the next year 2007-2008.
4. To transact any other business with the permission of the Chairman.

**By the order of the Board  
ATIF KHALIL**

Karachi:  
Date 18-09-2007

**Company Secretary**

## **NOTES:**

1. The Share Transfer Books of the Company will remain closed from October 05 to October 13, 2007 (Both days inclusive), to determine the names of members entitled to attend the meeting. Transfer received in order, at the Business Office of the Company at the close of business on October 04, 2007 will be treated in time.
2. The member entitled to attend and vote at the above meeting may appoint a member as proxy to attend and vote in place of the member at the meeting. Proxies in order to be effective must be received at the Company's Registered Office not later than 09:30 A.M. on October 10, 2007.
3. Members are requested to notify the Company of any change in their addresses.

# Directors' Report

On behalf of the Board of Directors I feel pleasure in presenting 19th Annual Report, (14th year of operation) of your Company together with the Audited Financial Statements for the period ended on June 30, 2007.

## OPERATING RESULTS

During the year ended on June 30, 2007 the total sales of cotton yarn amounted to Rs. 953,928,054 as compared of total sales of Rs. 888,448,470 during the preceding year. The export sale was Rs. 267,689,751 for the year as compared to Rs. 140,275,660 during the previous year. The local sale was Rs. 686,238,303 for the year as compared to sale of Rs. 748,172,810 during the previous year. By the grace of God your Company has earned a pre tax profit of Rs. 14,495,375 (2006: Rs. 32,454,481) after providing depreciation of Rs. 45,553,832 and financial charges of Rs. 52,335,711. During the year the provision for deferred tax is provided at Rs. 16,104,188/- which turns the bottom line to loss after tax of Rs. 6,378,628.

The decrease in profitability is due to the reason that in current cotton season the cotton prices reach up to Rs. 2,700/- per mound due to high demand and low supply of cotton in our country. The estimated consumption of cotton was approximately 15 millions bales while the production is approximately 12.5 millions bales which cause a gap in demand and supply of cotton in the country. The yarn prices remained stable but not correspond with the price hike of raw cotton and high direct & indirect costs, leaving no margin to the Company. The average carrying cost of raw cotton procurement of your Company during the current cotton season has reached up to Rs. 2,851/- (including direct costs, insurance and mark up on cotton finances). The future profitability of your Company will also affect by huge increase in the markup rate by the banks.

## SIGNIFICANT FINANCIAL PLANS:

### FRESH TERM LOAN

Your company has been able to repay long-term loan installments and markup to all banks including short-term debt servicing of banks.

During the year under review the Company has obtained fresh term loan of Rs. 60 millions and Rs. 43 millions of term loan of Habib Bank Limited were swap with Bank Al Habib Limited. This arrangement improved the liquidity position and the current ratio of your Company.

### FUTURE OUTLOOK

As you are aware that heavy rains in our Country has caused some serious damages to the cotton crop in Sindh as well as in Punjab. Therefore we are expecting that the price and the quality of the cotton may not be upto mark as compared with previous years but we will put our efforts and strive our best to remain competitive and profitable in accordance with the history of your Company. However the profitability of your Company may decline in future periods if the input cost remains high due to high raw material costs, labor cost and increase in markup rate by the banks. However if the yarn market further improves or raw cotton prices decline then it is hoped that the financial results of your Company will improve in future periods.

### AUDITORS

The retiring Auditors M/s. Yousuf Adil Saleem & Co., Chartered Accountants have offered themselves for re-appointment for the ensuring year 2007-2008. The audit committee in its meeting held on August 23, 2007 has recommended appointment of the retiring auditors.

### DIVIDEND

The Board of Directors has recommended no dividend due to loss during the year.

# Directors' Report

## **PATTERN OF SHARE HOLDING**

The pattern of share holding of the company as at June 30, 2007 is annexed.

## **Statement On Corporate And Financial Reporting Framework**

- a) The financial statements, prepared by the management of the Company, present fairly its state affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Key operating and financial data for the last six years have been summarized on page No. 06.
- i) There are no overdue taxes and levies as on 30 June 2007.
- j) During the year seven meetings of the Board of Director were held and attendance by each director is given on page No. 07.
- k) No trades in shares of the Company carried out by any director.

## **ACKNOWLEDGEMENT**

The directors wish to express their gratitude for the support given to the Company by the bankers Bank Al-Habib Limited, Habib Metropolitan Bank Limited, Habib Bank Limited and Citibank.

The Board of Director expresses appreciation for the sincerity and hard work of the staff and workers at Mill and Head office and also extends their thanks to valued share-holders for their confidence and moral support to the Company.

On Behalf of the Board of Directors

NOOR MUHAMMAD HASHIM  
Chairman / Chief Executive

Karachi  
Dated: August 31, 2007

## Financial Highlights

	2002 Rupees	2003 Rupees	2004 Rupees	2005 Rupees	2006 Rupees	2007 Rupees
<b>A Profit &amp; Loss</b>						
Net Sales	723,002,969	805,274,322	962,338,108	680,142,685	881,750,229	945,988,854
Gross Profit	78,427,767	71,173,465	36,346,229	96,495,610	99,477,085	87,389,716
Profit / Loss Before Tax	28,882,878	15,872,672	(14,504,340)	51,067,490	32,454,481	14,496,985
Profit / Loss After Tax	16,877,740	15,035,423	(17,105,330)	46,534,940	33,698,223	(6,377,018)
<b>B Cash Out Flows</b>						
Taxes paid	4,433,708	8,935,936	6,251,024	2,199,836	2,518,309	4,818,684
Financial charges paid	55,204,653	36,348,221	24,499,558	24,717,933	45,651,507	49,386,130
Fixed capital expenditure	1,605,002	477,835	15,382,900	9,074,212	35,655,902	5,795,363
<b>C Balance Sheet</b>						
Current Assets	102,101,846	92,237,940	201,288,301	264,622,083	343,834,203	299,946,167
Current Liabilities	133,052,637	94,193,146	198,530,560	232,766,704	441,850,233	329,741,415
Operating fixed assets	414,297,868	381,499,556	364,585,139	456,562,522	583,252,682	543,183,365
Total assets	522,144,715	476,072,497	568,038,541	725,349,706	936,251,986	850,294,633
Long term loans	127,448,778	129,448,778	112,148,778	80,648,778	38,048,778	84,600,000
Shareholders' Equity	193,384,742	209,636,863	186,027,871	240,578,831	254,457,519	236,993,666
<b>D Ratio</b>						
Current ratio (As per SBP regulations)	1:1.07	1:1.40	1:1.13	1:1.36	1:1.08	1:1.10
Gross Profit %	10.85	8.84	3.78	14.19	11.28	9.24
Net profit / Loss % (before tax)	3.99	1.97	(1.51)	7.51	3.68	1.53
Earning per share	1.22	0.94	(1.07)	2.91	2.11	(0.40)
Proposed dividend %	10%	10%	0%	15%	10%	0%
	Bonus Shares	Bonus Shares 5%	-	Cash dividend	Cash dividend	-
<b>E Production Data</b>		Cash dividend 5%	-	-		
1 No. of Spindles Worked	24,240	24,240	24,240	24,240	24,240	24,240
2 Installed capacity after conversion into 20/s count-kgs.	7,087,253	7,087,253	7,087,253	5,300,877	7,087,253	7,087,253
3 Actual Production of Yarn after conversion into 20/s count-Kgs.	7,427,874	7,863,994	7,901,648	6,059,884	7,372,789	8,462,929

# Attendance of Board Meeting

**DURING THE YEAR 2006-2007**  
**(July 2006 to June 2007)**

Name of Director	Total No. Of Board Meeting	No. of Meeting Attended
1. Mr. Noor Mohammad Hashim	7	7
2. Mr. Ahmed Mussa	7	7
3. Mr. Tayyab Noor Muhammad	7	7
4. Mr. Muhammad Younus Hashim	7	7
5. Mr. Imran M. Younus	7	7
6. Miss Fiza Chaudhri	7	7
7. Mr. Muhammad Idris Khokhar	7	7

## Detail of Pattern of Share Holding

### AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

	SHARES HELD	
Associated companies, Undertakings and related parties		NIL
NIT and ICP Investment Corporation of Pakistan		212
Directors, CEO and their Spouse and Minor Children		
Noor Muhammad Hashim		4,343,147
Tayyab Noor Muhammad		1,684,937
Muhammad Younus Hashim		31,763
Imran M. Younus		603,488
Fiza Chaudhri		609,821
M. Idris Khokhar		635
Ahmed Musa		228,054
Rukhsana Ahmed		336,949
Executive		NIL
Public Sector Companies and Corporation Banks, Development Finance Institutions, Non - Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds		NIL
Private Limited Companies		2,797,526
Individual		5,341,276
Total Share Capital		15,977,808
Summary of Share Capital		
Associated companies	NIL	NIL
Directors, CEO and their Spouse and Minor Childrens	8	7,838,794
Public Sector Companies and Corporation	NIL	NIL
Banks, Development Finance Institutions	1	212
Private Limited Companies	7	2,797,526
Individuals	530	5,341,276
Total Share Capital	546	15,977,808

### TRADING OF COMPANY'S SHARES BY THE DIRECTORS AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

	SHARES HELD	
Shareholders Holding 10% or More		NIL
Noor Muhammad Hashim		4,343,147
Tayyab Noor Muhammad		1,684,937
Automotive Products (Pvt) Ltd.		2,794,846



## Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi Stock Exchange Guarantee Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Board of Directors of Company has adopted and applied the principles contained in the Code of Corporate Governance in the following manner:

1. The Company encourages representation of non-executive directors and directors on its Board of Directors. At present the Board includes five non-executive directors and two executive directors.
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 directors of the Company are registered as taxpayers and to the best of our knowledge none of them have defaulted in payment of any loan to a banking company, DFI or an NBFIs. None of the directors of the company are members of any stock exchange.
4. There was no casual vacancy of director during the year.
5. The Company has adopted a “Statement of Ethics and Business Practices”, which has been signed by all the directors and employees of the Company.
6. The Board has developed vision and mission statements and significant policies and overall corporate strategy.
7. All 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 Board were presided over by the Chairman. The Board held seven (07) meetings during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated to all concerned.
9. The company held orientation courses for its directors during the period to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.



## Statement of Compliance with the Code of Corporate Governance

11. The directors' report for this period 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 corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members. All members of the committee including the chairman are non-executive directors.
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 as required by the code. The terms of reference of the committee have been framed and approved by the board and has been advised to the committee for compliance.
17. The Board has set-up an internal audit function.
18. The statutory auditors of the Company have confirmed that i) they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan; ii) they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and; iii) 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 persons 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.

Signature (s)

**NOORMUHAMMADHASHIM**

Chairman / CEO

Karachi

August 31, 2007

## 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 QUALITY TEXTILE MILLS LIMITED to comply with the Listing Regulation No. 37 of the Karachi 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 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 internal 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 30 June, 2007.

Karachi  
August 31, 2007

M. Yousuf Adil Saleem & Co.  
Chartered Accountants



Quality Textile  
Mills Limited

## Auditors' Report To The Members

We have audited the annexed balance sheet of **QUALITY TEXTILE MILLS LIMITED** as at June 30, 2007 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 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 objectives of the Company;

# Auditors' Report To The Members

- 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 confirm with the 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, 2007 and of the loss, 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.

**M. YOUSUF ADIL SALEEM & CO.**  
CHARTERED ACCOUNTANTS

Karachi:  
August 31, 2007

# Balance Sheet

As At June 30, 2007

	Note	2007 Rupees	Re-stated 2006 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised 26,000,000 Ordinary shares of Rs.10 each		<u>260,000,000</u>	<u>260,000,000</u>
Issued, subscribed and paid-up Unappropriated profit	3	159,778,080 77,215,586	159,778,080 94,679,439
		236,993,666	254,457,519
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>	4	154,080,855	158,971,828
<b>NON CURRENT LIABILITIES</b>			
Long term financing	5	84,600,000	38,048,778
Liabilities against assets subject to finance lease	6	6,315,139	21,744,164
Deferred liabilities	7	38,563,558	21,179,465
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	37,265,901	46,454,571
Interest/mark-up accrued on loans	9	8,383,191	5,433,610
Short-term financing	10	218,747,425	301,510,686
Current portion of long term financing	5	26,100,000	42,600,000
liabilities against assets subject to finance lease	6	16,029,393	27,405,676
Provision for taxation		23,215,505	18,445,690
		329,741,415	441,850,233
<b>CONTINGENCIES AND COMMITMENTS</b>	11		
		<u>850,294,633</u>	<u>936,251,986</u>

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

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**



	Note	2007 Rupees	2006 Rupees
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	12	543,183,365	583,252,682
Long term deposits		7,165,101	9,165,101
		550,348,466	592,417,783
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	13	16,397,134	12,836,123
Stock-in-trade	14	179,730,455	224,700,342
Trade debts	15	74,521,532	77,629,720
Loans and advance	16	1,007,441	3,893,497
Trade deposits and prepayments	17	3,158,959	1,037,313
Advance income tax		16,989,973	12,171,289
Other receivables	18	7,523,624	9,920,712
Cash and bank balances	19	617,049	1,645,207
		299,946,167	343,834,203
		<u>850,294,633</u>	<u>936,251,986</u>

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

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

# Profit and Loss Account

For The Year Ended June 30, 2007

	Note	2007 Rupees	2006 Rupees
Sales	20	945,988,854	881,750,229
Cost of goods sold	21	(858,599,138)	(782,273,144)
Gross profit		<u>87,389,716</u>	<u>99,477,085</u>
Other operating income	22	1,426,457	1,242,142
		<u>88,816,173</u>	<u>100,719,227</u>
Distribution cost	23	(13,318,248)	(111,601,102)
Administrative expenses	24	(7,863,744)	(8,650,947)
Other operating expenses	25	(801,485)	(2,195,840)
Finance cost	26	(52,335,711)	(45,816,857)
Profit before taxation		<u>14,496,985</u>	<u>32,454,481</u>
Provision for taxation	27	(20,874,003)	1,243,742
(Loss)/profit for the year		<u>(6,377,018)</u>	<u>33,698,223</u>
Earning per share - Basic & diluted	28	<u>(0.40)</u>	<u>2.11</u>

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

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**



# Cash Flow Statement

## For The Year Ended June 30, 2007

	2007 Rupees	2006 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	14,496,985	32,454,481
Adjustments for :		
Depreciation	45,553,832	35,436,730
Gain on disposal of property, plant and equipment	(18,152)	(291,897)
Provision for gratuity	2,692,643	1,022,500
Finance cost	52,335,711	45,816,857
Operating cash flows before changes in working capital	115,061,019	114,438,671
<b>Changes in working capital</b>		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(3,561,011)	2,216,388
Stock-in-trade	44,969,887	(55,420,444)
Trade debts	3,108,188	(17,243,099)
Loans and advances	2,886,056	(1,852,358)
Trade deposits and prepayments	(2,121,646)	(75,315)
Other receivables	2,397,088	(4,471,736)
Increase/ (decrease) in current liabilities		
Trade and other payables	(9,261,673)	4,513,799
	38,416,889	(72,332,765)
Cash generated from operations	153,477,908	42,105,906
Finance cost paid	(49,386,130)	(45,651,507)
Taxes paid	(4,818,684)	(2,518,309)
Gratuity paid	(1,412,738)	(2,997,054)
Net cash from / (used in) operating activities	97,860,356	(9,060,965)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5,795,363)	(35,655,902)
Proceeds on disposal of property, plant and equipment	329,000	515,000
Long-term deposits	2,000,000	(5,000,000)
Net cash used in investing activities	(3,466,363)	(40,140,902)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long term financing acquired	103,000,000	-
Repayment of long-term financing	(72,948,778)	(38,000,000)
Repayment of principal portion of finance lease	(26,805,307)	(17,641,646)
Short term financing acquired - net	(82,763,261)	128,553,294
Dividend paid	(15,904,805)	(23,862,535)
Net cash (used in) / from financing activities	(95,422,151)	49,049,113
Net decrease in cash and cash equivalents (A+B+C)	(1,028,158)	(152,754)
Cash and cash equivalents at the beginning of the year	1,645,207	1,797,961
Cash and cash equivalents at the end of the year	617,049	1,645,207

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

# Statement of Changes in Equity

For The Year Ended June 30, 2007

	Share capital	Unappropriated profit	Total
.....Rupees.....			
Balance as at July 01, 2005	159,778,080	80,800,751	240,578,831
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year - net off deferred tax	-	4,147,177	4,147,177
Net income recognised directly in equity	-	4,147,177	4,147,177
Profit for the year ended June 30, 2006	-	33,698,223	33,698,223
Total recognised income for the year ended	-	37,845,400	37,845,400
Final Cash dividend for the nine months period ended June 30, 2005 @ Rs. 1.5 per share	-	(23,966,712)	(23,966,712)
Balance as at June 30, 2006	159,778,080	94,679,439	254,457,519
<b>Changes in equity for the year 2007</b>			
Transfer from surplus on revaluation of property plant and equipment on account of incremental depreciation for the year - net off deferred tax	-	4,890,973	4,890,973
Net income recognised directly to equity	-	4,890,973	4,890,973
Loss for the year ended June 30, 2007	-	(6,377,018)	(6,377,018)
Total recognised expense for the year	-	(1,486,045)	(1,486,045)
Final cash dividend for the year ended June 30, 2006 @ Re. 1 per share	-	(15,977,808)	(15,977,808)
Balance as at June 30, 2007	159,778,080	77,215,586	236,993,666

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

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### 1. GENERAL INFORMATION

- 1.1 Quality Textile Mills Limited (the company) was incorporated in Pakistan on May 03, 1988 as a public limited company under the Companies Ordinance, 1984. The company is currently listed on Karachi Stock Exchange. The principal activity of the company is manufacturing and sale of yarn. The registered office of the company is situated at 24, 2nd floor, AliBhai Centre P.E.C.H.S. Block-2, Karachi in the province of Sindh. The company's manufacturing facilities are located at Ferozwattowan in the province of Punjab.
- 1.2 The financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of compliance

2.1.1 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 Accounting Standards as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

#### 2.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 1, 2007 are either not relevant to the Company's operation or are not expected to have significant impact on the Company's financial statements other than increased disclosures in certain cases: -

IAS 1	Presentation of financial statements - amendments relating to capital disclosures	Effective from accounting period beginning on or after January 1, 2007
IFRS 2	Share based payment	Effective from accounting period beginning on or after January 1, 2007
IFRS 3	Business combinations	Effective from accounting period beginning on or after January 1, 2007
IFRS 5	Non-current assets held for sale and discontinued operations	Effective from accounting period beginning on or after January 1, 2007
IFRS 6	Exploration for and evaluation of mineral resources	Effective from accounting period beginning on or after January 1, 2007
IFRIC 10	Interim financial reporting and impairment	Effective from accounting period beginning on or after November 1, 2006
IFRIC 11	Group and treasury share transactions	Effective from accounting period beginning on or after March 1, 2007
IFRIC 12	Services concession arrangements	Effective from accounting period beginning on or after January 1, 2008
IFRIC 13	Customer loyalty program	Effective from accounting period beginning on or after July 1, 2008

#### 2.3 Basis of preparation

The financial statements have been prepared under the historical cost convention modified by:-

- revaluation of certain property, plant and equipment

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

- certain financial instruments at fair value
- recognition of certain employees retirement benefits at present value

The principal accounting policies adopted are set out below:

### 2.4 Leases

Leases are classified as finance leases 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, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the company's general policy on borrowing costs.

### 2.5 Employees Benefit Costs

#### *Defined benefit plans*

The Company operates an unfunded gratuity scheme covering all its employees who have completed the minimum qualifying period of service as defined under the respective scheme. Provision is made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. The company carried out actuarial valuation as at June 30, 2007 using the projected unit credit method. The amount recognized in the balance sheet represents the present value of defined benefit obligations.

Actuarial gains and losses are recognised immediately in accordance with IAS-19.

Detail of the scheme is given in note 7.1 to financial statements.

### 2.6 Trade and other payables

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

### 2.7 Provisions

Provisions are recognised 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

Property, plant and equipment except land and building are stated at cost less accumulated depreciation and impairment in value, if any. Land and building are stated at revalued amount.

Assets residual value, if significant and their useful life are reviewed and adjusted, if appropriate, at each balance sheet date.

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and up to the month preceding the disposal respectively.

Upto June 30, 2006 company charged depreciation on plant & machinery on the basis of Units of production method. During the year company has changed its accounting estimate and depreciation is computed on the basis of reducing balance method. The change in accounting estimate has been applied prospectively. Had there been no change, the profit for the year and share holder's equity would have been higher by Rs.770,377/-.

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

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

capitalized and the assets so replaced, if any, are retired.

Gains or losses on disposal of assets, if any, are recognized as and when incurred.

Surplus arising on revaluation is credited to surplus on revaluation of fixed assets. The surplus on revaluation of land and building to the extent of incremental depreciation charged on related assets is transferred by the company to its unappropriated profit net of deferred tax.

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

### **2.9 Assets subject to finance lease**

Assets subject to finance lease are depreciated on the same basis as owned assets.

### **2.10 Stores, spares and loose tools**

These are valued at moving average cost less allowance for obsolescence and slow moving items. Items in transit are valued at cost accumulated upto balance sheet date.

### **2.11 Stock in trade**

Stock-in-trade are valued at the lower of cost and net realizable value.

Cost for raw material is determined using weighted average cost basis except for those in transit which are stated at invoice price plus other charges paid thereon upto the balance sheet date.

Finished goods and work-in-process consist of cost of direct materials, labour and a proportion of manufacturing overheads based on normal capacity. Cost is determined on average manufacturing cost.

Waste stock value is determined by net realizable value.

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

### **2.12 Trade debts and other receivables**

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

### **2.13 Cash and cash equivalents**

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

### **2.14 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 recognised 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 recognised 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 recognised as an income or expense.

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### 2.15 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.

### 2.16 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.

### 2.17 Revenue Recognition

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

Sales of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### 2.18 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 0.5 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.

### 2.19 Foreign Currencies

Transactions in currencies other than Pakistani Rupees are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

### 2.20 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices 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.

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### 2.21 Critical judgments and accounting estimates in applying the accounting policies

In the process of applying the company's accounting policies, the management has not identified any area where critical judgments have been exercised which have significant impact on the financial statements. Further, there are no key assumptions concerning the future and other key sources of estimating uncertainty at the balance sheet date that have significant risks of causing a material adjustment within the next financial year.

### 3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007	2006		2007	2006
No. of shares			Rupees	Rupees
		Ordinary shares of Rs. 10/- each fully paid		
12,576,000	12,576,000	in cash	125,760,000	125,760,000
3,401,808	3,401,808	As bonus shares	34,018,080	3,401,808
<u>15,977,808</u>	<u>15,977,808</u>		<u>159,778,080</u>	<u>159,778,080</u>

- 3.1 There were no movements during the reporting year.
- 3.2 The company has one class of ordinary shares which carry no right to fixed income.
- 3.3 The company has no reserved shares for issuance under options and sales contracts.
- 3.4 Following shares were held by the associated of the Company as at the balance sheet date:-

	2007	2006
	No. of Ordinary Shares	
Automotive Products(Private) Limited	2,794,846	2,794,846

### 4. SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT - net of tax

This represents surplus over book value resulting from the revaluation of land and building carried out in 1996, 1998, 2000, 2002, 2005 and 2006 by M/s. Iqbal A. Nanjee & Co. on the basis of market value or depreciated replacement values as applicable adjusted only by surplus realized on disposal of revalued assets, incremental depreciation arising out of revaluation during the year and deferred taxation.

	2007	Re-stated 2006
	Rupees	Rupees
Balance as at July 01	175,514,528	103,511,880
Increase arising on revaluation of property plant and equipment	-	76,694,092
Transferred to unappropriated profit in respect of incremental depreciation charged during the year (net of deferred tax)	(4,890,973)	(4,147,177)
Related deferred tax liability	(1,527,626)	(544,267)
Balance as at June 30	<u>169,095,929</u>	<u>(4,691,444)</u> 175,514,528
Less: Related deferred tax liability on		
Revaluation as at July 01	16,542,700	12,399,773
Surplus arising on revaluation of Property, plant and equipment	-	4,687,194
Incremental depreciation arising due to surplus on revaluation of property, plant and equipment transferred to unappropriated profit - net of deferred tax	(1,527,626)	(544,267)
Balance as at June 30	<u>15,015,074</u>	<u>16,542,700</u> <u>158,971,828</u>

# Notes to the Financial Statements

For The Year Ended June 30, 2007

## 5. LONG - TERM FINANCING

	<i>Long Term finance</i>	<i>Term finance-I</i>	<i>Term finance-II</i>	<i>Demand Finance</i>	<i>2007</i>	<i>2006</i>
-----Rupees-----						
<b>Banking companies-Secured</b>						
Opening balance	22,000,000	-	-	58,648,778	80,648,778	118,648,778
Obtained during the year	-	60,000,000	43,000,000	-	103,000,000	-
	<u>22,000,000</u>	<u>60,000,000</u>	<u>43,000,000</u>	<u>58,648,778</u>	<u>183,648,778</u>	<u>118,648,778</u>
Paid during the year	(10,000,000)	-	(4,300,000)	(58,648,778)	(72,948,778)	(38,000,000)
	<u>12,000,000</u>	<u>60,000,000</u>	<u>38,700,000</u>	<u>-</u>	<u>110,700,000</u>	<u>80,648,778</u>
Payable within one year shown under current liabilities	<u>(10,000,000)</u>	<u>(7,500,000)</u>	<u>(8,600,000)</u>	<u>-</u>	<u>(26,100,000)</u>	<u>(42,600,000)</u>
	<u>2,000,000</u>	<u>52,500,000</u>	<u>30,100,000</u>	<u>-</u>	<u>84,600,000</u>	<u>38,048,778</u>

### Terms:

No. of installments	10	16	20	
Installment period	Half yearly	Quarterly	Quarterly	
Instalment amount	As per schedule	Rs. 3,750,000	Rs. 2,150,000	
Comencement of first installment	December, 2003 and April, 2005	March 2008	March 2007	
Interest rate/mark-up	6 months treasury bills + 3%, Floor of 5.50%	6 months KIBOR + 1%	6 months KIBOR + 1%	6 months treasury bills + 3%, Floor of 5.50%

### Securities:

Above finances are secured by first charge over factory property (including land, building, plant and machinery) located at Sheikhpura by way of equitable and legal mortgage, bank guarantee issued by a bank on behalf of the company, lien over sponsor's ordinary shares of the Company and personnel guarantee of all directors.

The effective interest rate ranges from 11.26% to 11.64% per annum.



# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### 6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

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

	2007		2006	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within one year	16,832,185	16,029,393	30,817,620	27,405,676
After one year but not more than five years	6,363,650	6,315,139	23,032,675	21,744,164
Total minimum lease payments	23,195,835	22,344,532	53,850,295	49,149,840
Less: Amount representing finance charges	(851,303)	-	(4,700,455)	-
Present value of minimum lease payments	22,344,532	22,344,532	49,149,840	49,149,840
Less: Current portion	(16,029,393)	(16,029,393)	(27,405,676)	(27,405,676)
	6,315,139	6,315,139	21,744,164	21,744,164

- 6.1 These represents finance lease entered into with leasing company for machinery and generator. The financing rate used as discounting factor is 7.07% - 14.64% (2006: 7.07% - 9.9%) The lease term is of 3 years.

The Company intends to exercise the option to purchase the leased assets upon completion of the lease periods. Liabilities are secured against demand promissory notes and security deposits.

	2007	<i>Re-stated</i> 2006
	<i>Rupees</i>	<i>Rupees</i>
7. DEFERRED LIABILITIES		
Staff gratuity (7.1.1)	4,226,477	2,946,572
Taxation (7.2)	34,337,081	18,232,893
	<u>38,563,558</u>	<u>21,179,465</u>

#### 7.1 Staff gratuity

Number of employees covered by the scheme as on June 30, 2007 was 528 ( 2006: 225). The scheme's assets, liabilities, costs and actuarial gains/(losses) as determined by the actuary and significant assumptions used in this valuation are as follows:

	2007	2006
- Discount rate (% per anum)	10%	10%
- Expected rate of increase in salaries (%per annum)	8%	8%
- Average expected remaining working life of employees (years)	6 years	6 years

	Rupees	Rupees
7.1.1 Liability recognised in the balance sheet		
Actuarial net liability	4,226,477	2,946,572
Present value of defined benefit obligation	<u>4,226,477</u>	<u>2,946,572</u>
7.1.2 Charge for defined benefit plan		
Current service cost	2,718,232	1,159,496
Interest cost	294,657	492,113
Actuarial Loss	(320,246)	(629,109)
	<u>2,692,643</u>	<u>1,022,500</u>

# Notes to the Financial Statements

For The Year Ended June 30, 2007

	2007 Rupees	Re-stated 2006 Rupees
7.1.3 Movement in liability during the year		
Opening balance	2,946,572	4,921,126
Charge for the year	2,692,643	1,022,500
Payment made during the year	(1,412,738)	(2,997,054)
Closing balance	<u>4,226,477</u>	<u>2,946,572</u>
7.2 Taxation		
Deferred tax liabilities arising in respect of		
Own assets	38,970,909	40,343,633
Leased Assets	8,679,457	7,091,751
Surplus on revaluation of property, plant and equipment	15,015,074	16,542,700
	62,665,440	63,978,084
Deferred tax assets arising in respect of		
Gratuity	(1,005,902)	(701,284)
Tax losses	(27,322,457)	(45,043,907)
	(28,328,359)	(45,745,191)
Net deferred tax liability	<u>34,337,081</u>	<u>18,232,893</u>

7.2.1 During the year the company reversed the excess deferred tax liability on surplus on revaluation. The comparative information has been restated in accordance with the treatment specified in International Accounting Standard - 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Accordingly following prior year financial statements line items for the year ended June 30, 2006 have been restated:-

	Note	As per audited accounts 2006	Effect of prior year adjustment	Restated amount
<b>Restatement in balance sheet</b>				
Surplus on revaluation of property, plant & equipment	4	145,405,828	13,566,000	158,971,828
Deferred liabilities - Taxation	7.2	31,798,893	(13,566,000)	18,232,893

	2007 Rupees	2006 Rupees
<b>8. TRADE AND OTHER PAYABLES</b>		
Creditors	2,534,671	5,971,122
Accrued expenses	22,465,208	28,081,057
Advance from customers (8.1)	10,888,197	10,246,992
Workers profit participation fund (8.2)	769,293	1,718,913
Unclaimed dividend	450,842	377,839
Withholding income tax	157,690	58,648
	<u>37,265,901</u>	<u>46,454,571</u>
<b>8.1 Advance from customers</b>		
Local	8,027,793	5,638,423
Foreign	2,860,404	4,608,569
	<u>10,888,197</u>	<u>10,246,992</u>

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

		2007 Rupees	2006 Rupees
<b>8.2 Workers' profit participation fund</b>			
Balance as at July 01		1,718,913	2,687,763
Interest on fund utilized in Company's business(note 26)	8.2.1	<u>119,580</u>	<u>204,860</u>
		1,838,493	2,892,623
Paid during the year		<u>(1,838,493)</u>	<u>(2,892,623)</u>
		-	-
Allocation for the year		<u>769,293</u>	<u>1,718,913</u>
Balance as at June 30		<u><u>769,293</u></u>	<u><u>1,718,913</u></u>
<b>8.2.1</b> Interest on fund is charged @ 14.5% (2006: 14.1%) per annum			
<b>9. INTEREST / MARK-UP ACCRUED ON LOANS</b>			
Long term finances		3,039,697	1,335,254
Short term finances		<u>5,343,494</u>	<u>4,098,356</u>
		<u><u>8,383,191</u></u>	<u><u>5,433,610</u></u>
<b>10. SHORT-TERM FINANCING</b>			
<i>From banking companies - Secured</i>			
Running finance (10.1)		218,747,425	255,024,381
Export finance (10.2)		<u>-</u>	<u>46,486,305</u>
		<u><u>218,747,425</u></u>	<u><u>301,510,686</u></u>
10.1 The aggregate unavailed running finance facilities available amounted to Rs.358 million (2006 : Rs.759 million). These are subject to markup ranging from 10.01% to 11.64% (2006 : 8.2% to 11.3%) per annum payable quarterly. These are secured by way of first pari passu hypothecation charge on movable assets and receivables of the Company and personal guarantee of all the directors. The secondary collateral is the security mentioned in Note 5.2.			
10.2 The aggregate unavailed export refinance facilities amounted to Rs.Nil (2006 : Rs.60 million). These are subject to markup ranging from 6.16% - 6.55% (2006 : 5.7 % to 6.27 %) per annum. These are secured against export letters of credit held under lien and personal guarantee of directors.			
<b>11. CONTINGENCIES AND COMMITMENTS</b>			
<i>Contingencies</i>			
Bank guarantee issued to Collector of Customs against import licence fee on machinery		2,160,000	2,160,000
Bank guarantee in favour of Sui Nothern Gas Company Limited		11,611,000	11,011,000
Export bills discounted		78,091,411	7,220,251
Local bills discounted		46,459,668	59,005,000
<i>Commitments</i>			
Outstanding letters of credit for import of stores items		-	2,131,200
<b>12. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets	12.1	543,183,365	576,654,921
Capital work in progress	12.2	<u>-</u>	<u>6,597,761</u>
		<u><u>543,183,365</u></u>	<u><u>583,252,682</u></u>

# Notes to the Financial Statements

For The Year Ended June 30, 2007

## 12.1 Operating assets

Particulars	Cost/revaluation at July 01, 2006	Additions/ (deletion)	Cost/ revaluation at June 30, 2007	Accumulated depreciation at July 01, 2006	Depreciation (Adjustments) for the year	Accumulated depreciation June 30, 2007	Written down value at June 30, 2007	Rate %
<b>Owned:</b>								
Land - free hold	114,000,000	-	114,000,000	-	-	-	114,000,000	-
Buildings on free hold land								
Mills	102,438,719	148,312	102,587,031	11,762,231	9,078,772	20,841,003	81,746,028	10
Other	31,796,512	-	31,796,512	2,244,937	1,477,579	3,722,516	28,073,996	5
Office premises	2,200,000	-	2,200,000	771,488	71,426	842,914	1,357,086	5
Plant and machinery	469,969,995	10,641,585	480,611,580	226,237,439	24,883,365	251,120,804	229,490,776	10
Electric installations	24,872,333	-	24,872,333	18,229,448	664,289	18,893,737	5,978,596	10
Mills equipment	10,757,996	74,000	10,831,996	7,747,676	301,649	8,049,325	2,782,671	10
Office equipment	2,286,049	185,000	2,371,807	873,767	151,345	969,381	1,402,426	10
Furniture and fixtures	639,100	(99,242)	646,600	478,222	(55,731)	495,060	151,540	10
Vehicles	6,773,650	7,500	6,919,313	4,381,791	16,838	4,177,684	2,741,629	20
	765,734,354	12,201,060	776,837,172	272,726,999	37,172,819	309,112,424	467,724,748	
		(1,098,242)			(787,394)			
<b>Leased:</b>								
Generator	66,417,791	192,064	66,609,855	1,660,445	6,491,991	8,152,436	58,457,419	10
Plant and machinery	20,640,187	-	20,640,187	1,749,967	1,889,022	3,638,989	17,001,198	10
	87,057,978	192,064	87,250,042	3,410,412	8,381,013	11,791,425	75,458,617	
2007	852,792,332	12,393,124	864,087,214	276,137,411	45,553,832	320,903,849	543,183,365	
		(1,098,242)			(787,394)			
2006	696,894,472	79,997,768	852,792,332	241,271,579	35,436,730	276,137,411	576,654,921	
		(794,000)			(570,897)			
Revaluation		76,694,092						

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

2007  
Rupees

2006  
Rupees

**12.1.2 Depreciation for the year has been allocated as under:**

Cost of goods sold	21	45,048,658	34,848,438
Administration expenses	24	505,174	588,292
		45,553,832	35,436,730

**12.1.3** Had there been no revaluation, the related figures of land and buildings as at June 30, 2007 would have been as follows:

	2007			2006		
	Cost	Accumulated Depreciation	Written down value	Cost	Accumulated Depreciation	Written down value
	.....Rupees.....					
Land	7,992,616	-	7,992,616	7,992,616	-	7,992,616
Building mills	76,502,633	(47,738,662)	28,763,971	76,354,321	(44,542,665)	31,811,656
Building others	33,504,124	(15,540,324)	17,963,800	33,504,124	(14,594,861)	18,909,263
	117,999,373	(63,278,986)	54,720,387	117,851,061	(59,137,526)	58,713,535

**12.1.4** The following assets were disposed off during the year:-

Description	Cost	Accumulated Depreciation	Written down value	Sale proceed	Mode of disposal	Particulars of Buyer
	-----Rupees-----					
Vehicle	999,000	731,663	267,337	310,000	Negotiation	Mr. Hasan Nasir G-3 Flat 501, Clifton, Karachi.
Air Conditioner	81,842	45,821	36,021	18,000	Negotiation	Mr. Riaz Ferozwattowan, Distt. Sheikhpura
Refrigerator	17,400	9,910	7,490	1,000	Negotiation	-do-
2007	1,098,242	787,394	310,848	329,000		
2006	794,000	570,897	223,103	515,000		

2007  
Rupees

2006  
Rupees

**12.2 Capital work in progress**

Plant and machinery		-	6,449,449
Civil work		-	148,312
		-	6,597,761

# Notes to the Financial Statements

For The Year Ended June 30, 2007

	2007 Rupees	2006 Rupees
<b>13. STORES, SPARES AND LOOSE TOOLS</b>		
Stores	4,624,042	5,002,471
Spares	8,960,835	7,750,456
Loose tools	-	13,174
Stores in transit	2,812,257	70,022
	<u>16,397,134</u>	<u>12,836,123</u>
<b>14. STOCK IN TRADE</b>		
Raw material	152,021,946	188,580,736
Work in process	6,886,108	8,834,640
Finished goods	18,673,156	18,826,417
Waste	2,149,245	8,458,549
	<u>179,730,455</u>	<u>224,700,342</u>
<b>15. TRADE DEBTS</b>		
Local - unsecured - considered good	39,809,453	64,846,373
Export - secured (15.1)	34,712,079	12,783,347
	<u>74,521,532</u>	<u>77,629,720</u>
15.1 These are secured against export documents.		
<b>16. LOANS AND ADVANCES</b>		
<i>Related parties - considered good</i>		
Due from employees	301,481	107,200
Others-considered good		
Advances to suppliers	197,342	156,253
Letters of credit margin and expenses	508,618	3,630,044
	<u>1,007,441</u>	<u>3,893,497</u>
<b>17. TRADE DEPOSITS AND PREPAYMENTS</b>		
Deposits		
Margin against bank guarantee	884,000	884,000
Godown deposit	105,000	-
Lease deposits	2,000,000	-
Others	25,584	30,450
Prepayments	144,375	122,863
	<u>3,158,959</u>	<u>1,037,313</u>
<b>18. OTHER RECEIVABLES</b>		
<i>- Considered good</i>		
Income tax refundable	3,020,248	3,020,248
Insurance claim	5,000	6,900
Sales tax	4,498,376	6,893,564
	<u>7,523,624</u>	<u>9,920,712</u>

# Notes to the Financial Statements

## For The Year Ended June 30, 2007



	2007 Rupees	2006 Rupees
<b>19. CASH AND BANK BALANCES</b>		
Cash at banks		
- In current accounts	159,025	940,333
- In PLS accounts	81,597	79,704
Cash in hand	240,622	1,020,037
	376,427	625,170
	617,049	1,645,207

19.1 Effective markup rate is 1.5% (2006: 1.5%) per annum.

**20. SALES - NET**

Yarn		
Local	645,191,108	714,444,578
Export	267,689,751	140,275,660
Waste		
Local	41,047,195	33,728,232
	953,928,054	888,448,470
Less : Commission	(7,939,200)	(6,698,241)
	945,988,854	881,750,229

# Notes to the Financial Statements

For The Year Ended June 30, 2007

	2007 Rupees	2006 Rupees
<b>21. COST OF GOODS SOLD</b>		
Raw material consumed (21.1.1)	650,891,509	616,016,792
Packing material consumed	13,188,896	9,673,618
Stores and spares consumed	17,415,871	19,020,425
Salaries, wages and benefits (21.1.2)	51,182,099	42,421,330
Power and fuel	65,019,071	71,693,994
Insurance	4,402,500	4,529,806
Repairs and maintenance	2,144,240	812,324
Other manufacturing overheads	895,197	724,407
Depreciation (12.1.2)	45,048,658	34,848,438
	<u>850,188,041</u>	<u>799,741,134</u>
Work-in-process		
As at July 01,	8,834,640	7,374,995
As at June 30,	(6,886,108)	(8,834,640)
Cost of goods manufactured	<u>852,136,573</u>	<u>798,281,489</u>
Finished goods		
As at July 01	27,284,966	11,276,621
As at June 30,	(20,822,401)	(27,284,966)
	<u>858,599,138</u>	<u>782,273,144</u>
<b>21.1.1 Raw material consumed</b>		
As at July 01,	188,580,736	150,628,282
Purchases and purchase expenses - net of insurance claim	614,332,719	653,969,246
	<u>802,913,455</u>	<u>804,597,528</u>
As at June 30,	(152,021,946)	(188,580,736)
	<u>650,891,509</u>	<u>616,016,792</u>
21.1.2 Salaries, wages and benefits include Rs 2,491,071/- (2006: Rs. 2,072,129) in respect of staff retirement benefits.		
<b>22. OTHER OPERATING INCOME</b>		
Other Income		
Scrap sales	1,374,693	950,245
Profit on bank deposits	33,612	-
Gain on disposal of property, plant and equipment	18,152	291,897
	<u>1,426,457</u>	<u>1,242,142</u>
<b>23. DISTRIBUTION EXPENSES</b>		
Cartage and transportation	7,967,893	8,508,003
Ocean freight	2,622,243	1,238,135
Export development surcharge	516,348	90,919
Clearing and forwarding	949,640	446,158
Other	1,262,124	1,317,887
	<u>13,318,248</u>	<u>11,601,102</u>



# Notes to the Financial Statements

For The Year Ended June 30, 2007

	2007	2006
	Rupees	Rupees
<b>24. ADMINISTRATIVE EXPENSES</b>		
Staff salaries and benefits (24.1)	4,311,466	4,780,838
Postage and telephone	455,045	574,622
Printing and stationery	629,185	642,981
Travelling and conveyance	84,070	129,645
Legal and professional	247,100	186,219
Fees and subscription	398,444	421,901
Utilities	175,620	223,350
Advertisement	25,650	29,750
Vehicles running	594,212	458,999
Auditors' remuneration (24.2)	217,500	281,500
Depreciation (12.1.2)	505,174	588,292
Others	220,278	332,851
	<u>7,863,744</u>	<u>8,650,947</u>
24.1 Staff salaries and benefits include Rs.201,572/- (2006: Rs.139,431/-) in respect of the staff retirement benefits.		
<b>24.2 Auditors' remuneration</b>		
Audit fee	125,000	125,000
Out of pocket expenses	12,500	11,500
Other remuneration as auditor		
- Half yearly review	50,000	40,000
Tax and other services		
- Tax services	-	85,000
- Other services	30,000	10,000
	<u>217,500</u>	<u>281,500</u>
<b>25. OTHER OPERATING EXPENSES</b>		
Contribution to President Earth Quake Relief Fund	-	280,000
Exchange loss	32,192	196,927
Workers' profit participation fund	769,293	1,718,913
	<u>801,485</u>	<u>2,195,840</u>
<b>26. FINANCE COST</b>		
Interest / mark-up on:		
Long-term loans	11,021,813	11,164,272
Short-term bank financing	31,380,980	24,169,115
Finance lease	4,127,923	1,864,242
Bank charges and commission	5,685,415	8,414,368
Interest on worker's profit participation fund (note 8.2)	119,580	204,860
	<u>52,335,711</u>	<u>45,816,857</u>

# Notes to the Financial Statements

For The Year Ended June 30, 2007

	2007 Rupees	2006 Rupees
<b>27. PROVISION FOR TAXATION</b>		
For the current year (27.1)	4,769,815	5,741,233
Deferred	16,104,188	(6,984,975)
	<u>20,874,003</u>	<u>(1,243,742)</u>

**27.1** The tax liability of the company represents the minimum tax at the rate of 0.5 % of turnover under section 113 of Income Tax Ordinance 2001 (ITO) on local sales and 1.5 % on export sales under section 154 of Income Tax Ordinance 2001.

**27.2 Relationship between tax expense and accounting profit**

The numerical reconciliation between the average tax rate and the applicable tax rate 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 and falls under final tax regime and hence tax has been provided under sections 154 and 169 of the Income Tax Ordinance, 2001.

**28. EARNING PER SHARE**  
*- Basic & diluted*

*There is no dilutive effect on the basic earnings per share of the company which is based on :*

	2007	2006
(Loss)/profit after taxation	(6,377,018)	33,698,223
Weighted average number of ordinary shares outstanding during the year	15,977,808	15,977,808
Earning per share	(0.40)	2.11

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### 29. REMUNERATION TO DIRECTORS AND EXECUTIVES

	2007		2006	
	<i>Chief Executive</i>	<i>Director</i>	<i>Chief Executive</i>	<i>Director</i>
	.....Rupees.....			
Remuneration	320,000	280,000	320,000	280,000
House rent allowances	144,000	126,000	144,000	126,000
Other allowances	16,000	14,000	16,000	14,000
	480,000	420,000	480,000	420,000
No. of person	1	1	1	1

The Director of the company is also entitled to official use of company maintained car. The approximate maintenance cost of vehicle is Rs. 96,121/-.

### 30. TRANSACTION WITH RELATED PARTIES

The associated undertakings and related parties comprise directors and key management personnel. There are no transactions with related parties, other than remuneration and benefits to directors and key management personnel under the term of their employment as disclosed in Note 29.

2007	2006
Rupees	Rupees

### 31. PLANT CAPACITY AND ACTUAL PRODUCTION

Number of spindles installed	24,240	24,240
Number of spindles worked	24,240	24,240
Number of shifts per day	3	3
Installed capacity after conversion into 20/s count-kgs	7,087,253	7,087,253
Actual production of yarn after conversion into 20/s count-kgs	8,462,929	7,372,789

# Notes to the Financial Statements

For The Year Ended June 30, 2007

## 32. FINANCIAL INSTRUMENTS

### 32.1 Interest rate risk/mark-up

Interest rate/mark-up risk arises from the possibility that changes in interest rates / mark-up will effect the value of financial instruments.

32.2. The analysis of interest rate / mark-up rate risk is as under :

	Interest bearing		Sub Total	Non-interest bearing		Sub Total	2007 Rupees	2006 Rupees
	Maturity upto one year	Maturity after one year		Maturity upto one year	Maturity after one year			
<b>FINANCIAL ASSETS</b>								
Long term deposits	-	-	-	-	7,165,101	7,165,101	7,165,101	9,165,101
Trade debtors	-	-	-	74,521,532	-	74,521,532	74,521,532	77,629,720
Loans and advances	-	-	-	301,481	-	301,481	301,481	107,200
Trade deposits	-	-	-	909,584	-	909,584	909,584	914,450
Other receivables	-	-	-	5,000	-	5,000	5,000	6,900
Cash and bank balances	81,597	-	81,597	535,452	-	535,452	617,049	1,645,207
	81,597	-	81,597	76,273,049	7,165,101	83,438,150	83,519,747	89,468,578
<b>FINANCIAL LIABILITIES</b>								
Long term financing	26,100,000	84,600,000	110,700,000	-	-	-	110,700,000	80,648,778
Liabilities against assets assets subject to finance lease	16,029,393	6,315,139	22,344,532	-	-	-	22,344,532	49,149,840
Short term financing	218,747,425	-	218,747,425	-	-	-	218,747,425	301,510,686
Trade & other payable	-	-	-	25,450,721	-	25,450,721	25,450,721	34,430,018
Interest / Mark-up accrued on loans	-	-	-	8,383,191	-	8,383,191	8,383,191	5,433,610
	260,876,818	90,915,139	351,791,957	25,450,721	-	33,833,912	385,625,869	471,172,932

32.2.1 The effect interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

### 32.3 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs.83,519,747/- (2006 : Rs.89,468,578/-), the financial assets which are subject to credit risk amounted to Rs.82,902,698/- (2006 : Rs.87,823,371/-). The company manages credit risk in trade receivables by limiting significant exposure to any individual customer by obtaining advance against sales.

# Notes to the Financial Statements

## For The Year Ended June 30, 2007

### **32.4 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 approximate their fair value.

### **32.5 Liquidity risk**

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company's management closely monitors the company's liquidity and cash flow position.

### **32.6 Foreign exchange risk**

Foreign exchange risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. As at June 30, 2007, the total foreign currency risk exposure was Rs 34.712 million (2006: Rs 12.783 million) in respect of trade debts.

### **33. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on 31 August, 2007 by the Board of Directors of the Company.

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

## Pattern of Shareholding

Number of Share Holders	From	Share Holding	To	Total Shares Held
332	001	-	550	39,914
170	551	-	1,100	110,621
12	1,101	-	5,000	25,460
3	5,001	-	10,000	18,327
5	10,001	-	50,000	93,736
4	50,001	-	100,000	258,165
12	100,001	-	500,000	2,422,484
3	500,001	-	1,000,000	1,823,113
2	1,000,001	-	1,500,000	2,363,060
1	1,500,001	-	2,500,000	1,684,937
2	2,500,001	-	5,000,000	7,137,991
546			Total	15,977,808

### Categories of Shareholders

S.No.	Description	Number of Shareholders	Shares Held	Percentage
1.	Individual	538	13,180,070	82.4899
2.	Private Limited Companies	7	2,797,526	17.5088
3.	Non Banking Finance Institutions	1	212	0.0013
		546	15,997,808	100

**FORM OF PROXY**  
**19TH ANNUAL GENERAL MEETING**

I/We.....of.....  
in the district of.....being a Member(s) of  
Quality Textile Mills Limited hereby appoint Mr. ....  
of.....  
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be  
held on October 12, 2007 at the Company's Registered Office 24, Alibhai Centre, 2nd Floor, 233 A, Block 2,  
P.E.C.H.S., Karachi, and at any adjournment thereof.

As witness my/our hand this.....day of  
.....

Signed by the said.....  
in the presence.....

Please  
affix Rupees  
five revenue  
stamp

Please quote folio number

Important: This instrument appointing a proxy duly completed, must be received at the Business Office of the  
Company not later than 09:30 a.m. on 10th October, 2007.