

## Auditor's Report to the members

We have audited the annexed balance sheet of RELIANCE COTTON SPINNING 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 purpose of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also 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 accounts 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 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**

Lahore :  
October 06, 2008

**Balance Sheet as at June 30, 2008**

<b>ASSET</b>	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	493,470,244	495,141,231
Long-term loans	4	860,000	1,160,000
Long-term deposits	5	366,380	359,880
		494,696,624	496,661,111
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	6	14,546,594	20,371,827
Stock-in-trade	7	481,263,664	314,634,559
Trade debts	8	176,479,924	198,365,175
Loans and advances	9	2,195,440	866,311
Deposits and short-term prepayments	10	232,217	211,273
Other receivables	11	3,026,468	2,347,959
Advance income tax	12	2,178,626	1,678,046
Tax refunds due from the Government	13	13,936,922	12,273,647
Cash and bank balances	14	13,550,920	6,731,059
		707,410,775	557,479,856
		<b>1,202,107,399</b>	<b>1,054,140,967</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

**Balance Sheet as at June 30, 2008**

<b>EQUITY AND LIABILITIES</b>	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
12,000,000 (June 30, 2007: 12,000,000) ordinary shares of Rs.10 each		120,000,000	120,000,000
Issued, subscribed and paid up share capital	15	102,920,000	102,920,000
General reserves		130,000,000	130,000,000
Un-appropriated profit		271,988,674	215,866,988
		504,908,674	448,786,988
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing	16	-	80,000,000
Deferred-employee benefits	17	13,846,225	10,059,120
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	54,231,720	49,926,875
Mark-up accrued on loans	19	16,906,813	12,377,903
Short-term borrowings	20	532,213,967	372,990,081
Current portion of long-term financing	16	80,000,000	80,000,000
		683,352,500	515,294,859
<b>CONTINGENCIES AND COMMITMENTS</b>	21		
		<b>1,202,107,399</b>	<b>1,054,140,967</b>

Karachi :  
October 06, 2008

**Yousuf Abdullah**  
Chief Executive

**Muhammad Abdullah**  
Director

**Balance Sheet as at June 30, 2008**

<b>EQUITY AND LIABILITIES</b>	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
12,000,000 (June 30, 2007: 12,000,000) ordinary shares of Rs.10 each		120,000,000	120,000,000
Issued, subscribed and paid up share capital	15	102,920,000	102,920,000
General reserves		130,000,000	130,000,000
Un-appropriated profit		271,988,674	215,866,988
		504,908,674	448,786,988
<b>NON-CURRENT LIABILITIES</b>			
Long-term financing	16		80,000,000
Deferred-employee benefits	17	13,846,225	10,059,120
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	54,231,720	49,926,875
Mark-up accrued on loans	19	16,906,813	12,377,903
Short-term borrowings	20	532,213,967	372,990,081
Current portion of long-term financing	16	80,000,000	80,000,000
		683,352,500	515,294,859
<b>CONTINGENCIES AND COMMITMENTS</b>	21		
		<b>1,202,107,399</b>	<b>1,054,140,967</b>

Karachi :  
October 06, 2008

**Yousuf Abdullah**  
Chief Executive

**Muhammad Abdullah**  
Director

## Cash flow statement for the year ended June 30, 2008

	Note	For the year ended June 30, 2008 Rupees	For the year ended June 30, 2007 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		85,093,941	75,209,626
Adjustments for:			
Depreciation of property, plant and equipment		48,351,852	50,340,200
Provision for deferred employee benefits		6,652,323	4,629,165
Gain on disposal of property, plant and equipment		(687,319)	(269,613)
Finance cost		65,054,434	65,306,419
		204,465,231	195,215,797
Working capital changes			
Decrease / (Increase) in stores, spare parts and loose tools		5,825,233	(46,273)
Increase in stock-in-trade		(166,629,105)	(10,975,509)
Decrease / (Increase) in trade debts		21,885,251	(25,133,821)
(Increase) / Decrease in loans and advances		(1,329,129)	3,291,771
Increase in short-term deposits and prepayments		(20,944)	(37,464)
Increase in other receivables		(678,509)	(439,453)
Increase / (Decrease) in trade and other payables		4,296,336	(1,870,179)
		(136,650,867)	(35,210,928)
Cash generated from operations		67,814,364	160,004,869
Dividends paid		(15,429,491)	(10,289,755)
Employee benefits paid		(2,865,218)	(2,985,787)
Finance cost paid		(60,525,524)	(63,120,119)
Sales tax refunded		137,406	4,416,222
Income taxes paid		(15,835,516)	(8,607,271)
		(94,518,343)	(80,586,710)
Net cash (used in)/from operating activities		(26,703,979)	79,418,159

## Cash flow statement for the year ended June 30, 2008

	Note	For the year ended June 30, 2008 Rupees	For the year ended June 30, 2007 Rupees
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(50,525,546)	(24,823,894)
Proceeds from disposal of property, plant and equipment		4,532,000	1,480,000
Decrease / (increase) in long-term loans		300,000	(1,460,000)
Increase in long-term deposits		(6,500)	(115,500)
Net cash used in investing activities		(45,700,046)	(24,919,394)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of long-term financing		(80,000,000)	(140,000,000)
Net increase in short-term borrowings		159,223,886	88,491,711
Net cash from / (used in financing activities)		79,223,886	(51,508,289)
Net increase in cash and cash equivalents		6,819,861	2,990,476
<b>Cash and cash equivalents at beginning of year</b>		6,731,059	3,740,583
<b>Cash and cash equivalents at end of year</b>	14	13,550,920	6,731,059

The annexed notes from 1 to 39 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD OF NINE MONTHS ENDED ON 30 JUNE, 2005

	Share capital	General reserve	Unappropriated profit	Unrealised gain on forward contracts	Total
	-----R u p e e s-----				
Balance as at 30 September, 2003 - <i>as reported</i>	102,920,000	130,000,000	75,958,495	-	308,878,495
Effect of change in accounting policy					
- final dividend for the year ended 30 September, 2003 declared subsequent to the year-end	-	-	12,865,000	-	12,865,000
Balance as at 30 September, 2003 - <i>as restated</i>	102,920,000	130,000,000	88,823,495	-	321,743,495
Dividend for the year ended 30 September, 2003	-	-	(12,865,000)	-	(12,865,000)
Profit for the year ended 30 September, 2004	-	-	34,756,966	-	34,756,966
Unrealised gain on measurement of forward foreign exchange contracts	-	-	-	365,407	365,407
Balance as at 30 September, 2004	102,920,000	130,000,000	110,715,461	365,407	344,000,868
Dividend for the year ended 30 September, 2004	-	-	(12,865,000)	-	(12,865,000)
Realised gain on remeasurement of forward foreign exchange contracts	-	-	-	(365,407)	(365,407)
Profit for the period ended 30 June, 2005	-	-	48,129,868	-	48,129,868
Balance as at 30 June, 2005	102,920,000	130,000,000	145,980,329	-	378,900,329

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

Karachi :  
October 06, 2005

YOUSUF ABDULLAH  
CHIEF EXECUTIVE

MOHAMMAD ABDULLAH  
DIRECTOR

## Corporate Information

### BOARD OF DIRECTORS

**CHAIRMAN** : **MR. MOHAMMAD ABDULLAH**

**CHIEF EXECUTIVE** : **MR. YOUSUF ABDULLAH**

**DIRECTOR** : **MR. SHAHID ABDULLAH**  
**MR. NADEEM ABDULLAH**  
**MR. AMER ABDULLAH**  
**MR. MOHAMMAD YOUNUS**  
**MR. MOHAMMAD YAMIN**

### AUDIT COMMITTEE

**CHAIRMAN** : **MR. AMER ABDULLAH**  
**MEMBER** : **MR. SHAHID ABDULLAH**  
**MEMBER** : **MR. NADEEM ABDULLAH**

**CHIEF FINANCIAL OFFICER** : **MR. NAVEED-UL-ISLAM**

**SECRETARY** : **MR. UMAR RAHI**

**AUDITORS** : **M. YOUSUF ADIL SALEEM & COMPANY**  
**CHARTERED ACCOUNTANTS**

**MANAGEMENT CONSULTANT** : **M. YOUSUF ADIL SALEEM & COMPANY**  
**CHARTERED ACCOUNTANTS**

**TAX CONSULTANTS** : **M. YOUSUF ADIL SALEEM & COMPANY**  
**CHARTERED ACCOUNTANTS**

**BANKERS** : **HABIB BANK LIMITED**  
**NATIONAL BANK OF PAKISTAN**

**REGISTERED OFFICE** : **312, COTTON EXCHANGE BUILDING,**  
**I.I. CHUNDRIGAR ROAD, KARACHI.**

**MILLS** : **FEROZE WATTOAN**  
**TEHSIL AND DISTRICT SHEIKHUPURA**

**SHARE REGISTRARS** : **HAMEED MAJEED ASSOCIATES (PVT) LTD.**  
**5 TH FLOOR, KARACHI CHAMBERS,**  
**HASRAT MOHANI ROAD, KARACHI.**



# Director's Report

The Director's feel great pleasure in presenting 19<sup>th</sup> annual report with audited financial statements of the company for the year ended June 30, 2008.

## OPERATING FINANCIAL RESULTS

In the year under review your company has earned net profit before tax Rs 85.094 million as compared to Rs 75.210 million of corresponding period, resulting an improvement of 13.14 %.

### Other salient features for the year's operational results are as follows:

- Gross Profit for the period stood at Rs 215.947 million comparing to corresponding period's profit of Rs.211.501 million resultant an increase of 2.10 % in spite of decrease in Gross Sales by 4.44%.
- Finance Costs for the period were Rs 65.064 million as against Rs 65.306 million of the corresponding period.
- The company earned after tax profit of Rs 71.560 million as compared to after tax profit of Rs. 65.739 million registering an increase of 8.855 %.
- Earning per Share for the year Rs. 6.95 as against Rs 6.39 of the corresponding period under review.

## APPROPRIATION OF PROFITS

Your directors are pleased to propose the following appropriations for the period under review:

	2008	2007
	(Rupees in '000')	
Net profit after Taxation		
	71,559	65,739
Un-appropriated profit brought forward	200,428	150,127
Profit available for appropriation:	271,988	215,866
<b>Appropriations:</b>		
Proposed Cash Dividend @ 10 % (2007: 15.0%)	10,292	15,438
Un-appropriated Profit Carried forward	261,696	200,428

## EXPANSION AND BMR

During the year the Company has incurred capital expenditure amounting to Rs.46.359 Million for Balancing Modernization and Replacement. Your Director's are confident that the Company would be in better position to meet future market challenges.

## DIVIDEND

The Board of Directors have pleasure to recommend final cash dividend of 10 % i.e. Re.1 (Rupees one only) per share to be paid to the shareholders.

# Director's Report

## EARNING PER SHARE

The earning per share on June 30, 2008 was Rs.6.95 as compare to Rs.6.39 on June 30, 2007.

## FUTURE OUTLOOK

Your company has performed well during the year under review, achieving better results despite of tough competition from the neighboring countries and upsurge of input costs. However, the management is optimistic to maintain good results by developing improved product mix and controlling production costs through better efficiencies for the upcoming financial year. However, financial cost is increasing which will adversely effecting the profitability.

## STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

The Board of Directors periodically reviews the Company's strategic direction. Business plans and targets are set by the Chief Executive and reviewed by the Board. The Board is committed to maintain a high standard of corporate governance. The Board has reviewed the Code of Corporate Governance and confirm that:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. The company has maintained proper books of account.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control, which was in place, is being continuously reviewed by the internal audit and other such procedures. The process of review and monitoring will continue with the object to improve it further.
6. All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as debt the same is disclosed as contingent liabilities in the notes to the accounts.
7. There is no doubt about the company's ability to continue as a going concern.
8. There has been no material departure from the best practices of corporate governance, as detailed in listing regulations.
9. The Board in compliance to the Code of Corporate Governance has established an Audit Committee and the following directors are its members:

Mr. Amer Abdullah	Chairman
Mr. Shahid Abdullah	Member
Mr. Nadeem Abdullah	Member
10. Operating and financial data and key ratios of six years are annexed.

# Director's Report

11. The company operates an un-funded gratuity scheme for its employees and provision has been made in the accounts accordingly.
12. Except as stated hereunder, no trades in the shares of the Company were carried out by the Directors, Chief Executive Officer, Chief Finance Officer, Company Secretary, their spouses and minor children:

Mrs. Ambareen Amer, Spouse of Director purchased	=500= shares
Mrs. Ambareen Amer Spouse of Director sold	=500= shares
Mrs. Shireen Shahid, Spouse of Director purchased	=20,900= shares
Mr. Yousuf Abdullah	=4,500= shares

13. During the year =7= meetings of the Board of Directors were held. Attendance by each Director is as follows:

Mr. Mohammad Abdullah	=7=
Mr. Shahid Abdullah	=7=
Mr. Nadeem Abdullah	=7=
Mr. Amer Abdullah	=7=
Mr. Yousuf Abdullah	=7=
Mr. Mohammad Younus	=7=
Mr. Mohammad Yamin	=7=

14. Code of Ethics and Business Practices has been developed and are communicated and acknowledged by each Director and employee of the company.

## PATTERN OF SHAREHOLDING:

The pattern of share holding of the company as at June 30, 2008 is annexed. This statement is prepared in accordance with the Code of Corporate Governance and the Companies Ordinance, 1984.

## AUDITORS:

The present Auditors, M. Yousuf Adil Saleem & Company, Chartered Accountants retire and being eligible offer themselves for re-appointment for the year 2008-2009. Audit Committee and Board of Directors have also recommended their appointment as Auditor for the year ending June 30, 2009.

## ACKNOWLEDGEMENTS:

The Management would like to place on record its appreciation for the support of the Board of Directors, Shareholders, Bankers, Suppliers and the dedication and hard work of the Staff and Workers.

For and on behalf of the Board of Directors

Karachi  
October 06, 2008

**Yousuf Abdullah**  
Chief Executive

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT 19th Annual General Meeting of **RELIANCE COTTON SPINNING MILLS LIMITED** will be held on Monday the 27th day of October, 2008 at 03:30 p.m. at 212, Cotton Exchange Building, I.I.Chundrigar Road, Karachi to transact the following business:

1. To confirm the minutes of 18th Annual General Meeting.
2. To receive, consider and adopt the report of the Directors and Auditors and Audited Accounts of the Company for the year ended 30th June, 2008.
3. To approve the dividend as recommended by the Board of Directors
4. To appoint auditors for the year ending 30th June, 2009 and fix their remuneration. The present auditors M. Yousuf Adil Saleem & Company, Chartered Accountants, retire and being eligible offer themselves for reappointment.
5. To transact any other business with the permission of the Chair.

By order of the Board

**(UMAR RAHI)**  
SECRETARY

Karachi.

Dated : 06th October, 2008

**NOTE:**

1. The share transfer books of the Company shall remain closed for entitlement of Dividend from 21st October, 2008 to 27th October, 2008 (both days inclusive). Transfers received in order, by the Hameed Majeed Associates (Private) Limited, 5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi, up to 20th October, 2008, will be considered in time for the payment of dividend.
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxies in order, to be valid must be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.
3. CDC shareholders desiring to attend the meeting are requested to bring their original National Identity Cards, Account/Sub Account and particular of participants I.D. numbers and account numbers in CDS, for identification purpose, and in case of proxy, to enclose an attested copy of his/her National Identity Card.
4. Shareholders are requested to notify the Company of any change in their addresses.

## **Mission**

*Our Mission is to be recognised as premier supplier to the markets we serve by providing quality yarns, fabrics and other textile products to satisfy the needs of our customers.*

*Our mission will be accomplished through excellence in customer service, sales and manufacturing supported by teamwork of all associates.*

*We will continue our tradition of honesty, fairness and integrity in relationship with our customers, associates, shareholders, community and stakeholders.*

## Notes to the Financial Statements for the year ended June 30, 2008

### I GENERAL INFORMATION

- 1.1 Reliance Cotton Spinning Mills Limited ("the Company") was incorporated in Pakistan on June 13, 1990 as a public limited company under the Companies Ordinance, 1984. The registered office of the Company is situated at 312, Cotton Exchange Building, Karachi. The Company is currently listed on Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The principal activity of the Company is manufacturing and sale of yarn. The mill is located at District Sheikhpura in the Province of Punjab.
- 1.2 These 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

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

#### 2.2 Initial application of a standard or an interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 34 to the financial statements.

#### 2.2.1 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009).

Revised IAS 23 - Borrowing costs (effective from 1 January 2009).

IAS 29 - Financial Reporting in Hyperinflationary Economies (applicable for period beginning from 28 April 2008).

IAS 32 (amendment) - Financial instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 1 January 2009).

IFRS 2 (amendment) - Share-based payments (effective for annual periods beginning on or after 1 January 2009).

IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27 - Consolidated and separate financial statements, IAS 28 - Investment in associates and IAS 31 - Interest in Joint Ventures.

## Notes to the Financial Statements for the year ended June 30, 2008

IFRS 5 - Non-current assets held for sale and discontinued operations (applicable for periods beginning from 01 January 2007).

IFRS 7 - Financial Instruments: Disclosures (applicable for periods beginning from 28 April 2008).

IFRS 8 - Operating Segments (effective from 1 January 2009).

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).

IFRIC 14 IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008).

IFRIC 15 - Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (annual periods beginning on or after 1 October 2008).

IFAS 2 - Ijarah (effective for annual periods beginning on or after 1 July 2007).

### 2.3 Basis of preparation

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

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

### 2.4 The principal accounting policies adopted are set out below:

#### 2.4.1 Significant estimates

The preparation of financial statements in conformity with IASs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, and the results of which form the basis for making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IASs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

#### Deferred employee benefits

The Company operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service as defined under the respective scheme. Contributions are made annually to cover the obligation under the scheme on the basis of actuarial valuation and are charged to income. The calculation require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and discount rate used to derive present value of defined benefit obligation. The assumptions are determined by independent actuaries on annual basis.

## Notes to the Financial Statements for the year ended June 30, 2008

### Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

### Taxation

The Company takes into account the relevant provision of current income tax laws while providing for current and deferred taxes as explained in relevant note to these financial statements.

#### 2.4.2 Property, plant and equipment

Property, plant and equipment except freehold land and capital work-in-progress are stated at cost less accumulated depreciation and impairment in value, if any. Freehold land, capital work-in-progress and stores held for capital expenditure are stated at cost. Cost includes borrowing cost as referred in accounting policy for borrowing cost.

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

When parts of an item of property, plant and equipment have different useful lives, they are recognized as separate items of property, plant and equipment.

Subsequent costs are recognized as separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to income applying the reducing balance method over estimated useful life at the rates specified in relevant note to these financial statements. In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Gains or losses on disposal of assets, if any, are included in the profit and loss account.

Capital work-in-progress is stated at cost accumulated upto the balance sheet date. 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.

#### 2.4.3 Stores, spare parts and loose tools

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

#### 2.4.4 Stock-in-trade

These are valued at the lower of average cost and net realizable value. Cost is computed applying the following bases:

Raw material	
- at mills	- weighted average cost.
- in transit	- cost accumulated upto the balance sheet date.
Work-in-process	- average manufacturing cost.
Finished goods	- average manufacturing cost.
Waste	- net realizable value.

Average manufacturing cost in relation to work-in-process and finished goods includes cost of direct material, direct labour and a proportion of manufacturing overheads based on normal capacity.

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



## Notes to the Financial Statements for the year ended June 30, 2008

### 2.4.5 Impairment

The Company assesses at each balance sheet date whether there is any indication that 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.

### 2.4.6 Financial instruments

Financial assets and financial 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.

Financial instruments are initially recorded at fair value on the date a derivative contract is entered into and are re-measured to fair value at subsequent reporting dates.

The gain or loss relating to financial instruments is recognized immediately in the profit and loss account.

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

### 2.4.7 Off setting 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.

### 2.4.8 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 period end. Balances considered bad and irrecoverable are written off when identified.

### 2.4.9 Cash and cash equivalents

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

### 2.4.10 Trade debts and other payables

Liability for trade and other payables are measured at the fair value of the consideration to be paid in the future for goods and services received.

## Notes to the Financial Statements for the year ended June 30, 2008

### 2.4.11 Financial instruments - hedge arrangements

In certain cases, the Company uses forward foreign exchange contracts (cash flow hedge arrangements) to hedge its risk associated primarily with foreign currency fluctuations.

These contracts (except those having immaterial financial impact) are included in the balance sheet at fair value and any resultant unrealized gain or loss is recognized in the statement of changes in equity, on realization of same is transferred to profit and loss account. The fair value of forward foreign exchange contracts are included in "Other receivables" in case of favorable contracts and "Trade and other payables" in case of unfavorable contracts. The fair values of forward foreign exchange contracts are calculated by reference to current forward foreign exchange rates with similar maturity profiles.

### 2.4.12 Employee benefits

#### Defined benefit plan

The Company operates un-funded gratuity scheme for all its employees who have completed minimum qualifying period of service as defined under the respective scheme. Provisions are made to cover the obligations under the schemes on the basis of actuarial valuation and are charged to income.

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

The most recent valuation was carried out as at June 30, 2008 using the "Projected Unit Credit Method". Actuarial gains / losses are recognized in accordance with the limits set-out by IAS - 19 ("Employee Benefits").

Cumulative net unrecognized actuarial gains and losses at the end of previous period 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 relevant note to these financial statements.

#### Compensated absences

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

### 2.4.13 Provisions

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

## Notes to the Financial Statements for the year ended June 30, 2008

### 2.4.14 Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Finance cost is accounted for on an accrual basis and is included in current liabilities to the extent of amount remaining unpaid, if any.

### 2.4.15 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.

Revenue from local sales is recognized when goods are dispatched to customers, export sales are recognized on shipment of goods.

Export rebate is recognized on accrual basis at the time of making the export sales.

### 2.4.16 Borrowing costs

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

All other borrowing costs are recognized in profit or loss account for the year.

### 2.4.17 Taxation

#### Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions 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 tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amount for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" and "Technical Release 30" of the Institute of Chartered Accountants of Pakistan.

Deferred tax liability is recognized for all taxable temporary differences while deferred 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 profits will be available against which such temporary differences and tax losses can be utilized.

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

## Notes to the Financial Statements

### for the year ended June 30, 2008

#### 2.4.18 Foreign currencies

Transactions in currencies other than Pakistani rupee 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 translated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities in that case, the rates contracted for are used.

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

#### 2.4.19 Dividend

Dividend is recognized in the period in which it is paid.

#### 2.4.20 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on commercial terms and conditions.

	Note	June 30 2008 Rupees	June 30 2007 Rupees
3.	<b>PROPERTY, PLANT AND EQUIPMENT</b>	<u>493,470,244</u>	<u>495,141,231</u>



# Notes to the Financial Statements

for the year ended June 30, 2008

## 3.2 PROPERTY, PLANT AND EQUIPMENT-AT JUNE 30, 2007

Particulars	C o s t					A c c u m u l a t e d D e p r e c i a t i o n			Book value At June 30, 2007	Annual depreciation rate %
	As at July 01, 2006	Additions	Transfer	Disposals	As at June 30, 2007	Charge for the year	On disposals	As at June 30, 2007		
	R u p e e s									
Operating assets										
Land - freehold	10,806,424	-	-	-	10,806,424	-	-	-	10,806,424	-
Building on freehold land:										
Residential	33,420,340	-	-	-	33,420,340	9,526,087	-	10,720,800	22,699,540	5
Factory	96,377,983	558,314	8,812,701	-	105,748,998	54,581,952	4,294,416	58,876,368	46,867,630	10
Plant and machinery	725,141,278	16,098,468	1,677,337	1,031,726	741,885,357	306,288,094	42,484,985	348,696,703	393,188,654	10
Electric installation	17,513,611	-	-	-	17,513,611	11,838,388	567,522	12,405,910	5,107,701	10
Electric equipment	195,500	-	-	-	195,500	149,168	4,633	153,801	41,699	10
Furniture and fixture	1,345,627	-	-	-	1,345,627	466,702	87,893	554,595	791,032	10
Office equipment	2,055,467	294,700	-	-	2,350,167	907,232	127,040	1,034,272	1,315,895	10
Vehicles	8,568,846	-	3,930,978	1,050,000	11,449,824	3,284,977	1,578,998	4,069,012	7,380,812	20
	895,420,076	16,951,482	14,421,016	2,081,726	924,710,848	387,042,600	50,340,200	436,511,461	488,199,387	
Capital work-in-progress										
Plant and machinery	1,538,331	139,006	(1,677,337)	-	-	-	-	-	-	
Building - civil work	10,551,954	4,728,591	(8,812,701)	-	6,467,844	-	-	-	6,467,844	
Vehicles	1,400,163	3,004,815	(3,930,978)	-	474,000	-	-	-	474,000	
	13,490,448	7,872,412	(14,421,016)	-	6,941,844	-	-	-	6,941,844	
June 30, 2007	908,910,524	24,823,894	-	2,081,726	931,652,622	387,042,600	50,340,200	436,511,461	495,141,231	

## Notes to the Financial Statements

for the year ended June 30, 2008

### 3.3 Disposal of property, plant and equipment

Particulars	Cost	Accumulated depreciation	Book value	Proceeds from disposal of property, plant and equipment	Gain on disposal of property, plant and equipment	Mode of disposal	Particulars of buyer
..... Rupees .....							
Drafting System	4,270,373	835,392	3,434,981	4,000,000	565,019	Negotiation	Sapphire Fibre Limited unit - 3 (Associated Company) 7-A/K Gulberg II, Lahore
Motor vehicle	560,000	397,525	162,475	235,000	72,525	Negotiation	Abdul Qadeer, Madina Town Chakwal
Motor vehicle	621,762	396,270	225,492	235,000	9,508	Negotiation	Najam-ul-Hassan, Khanwali post office, Chakwal
Motor Cycle	64,575	42,842	21,733	62,000	40,267	Negotiation	Imtiaz Bhatti, Baghban Pura Lahore
<b>June 30, 2008</b>	<b>5,516,710</b>	<b>1,672,029</b>	<b>3,844,681</b>	<b>4,532,000</b>	<b>687,319</b>		
<b>June 30, 2007</b>	<b>2,081,726</b>	<b>871,339</b>	<b>1,210,387</b>	<b>1,480,000</b>	<b>269,613</b>		

	June 30 2008	June 30 2007
4 LONG-TERM LOANS	Rupees	Rupees
Long-term loan to employee - secured, considered good	1,160,000	1,460,000
Less: current portion	9 300,000	300,000
	<u>860,000</u>	<u>1,160,000</u>

4.1 This represents interest free loan to an employee for purchase of residential plot and secured against post employment benefits. This loan is payable in sixty one monthly installments and will be adjusted against salary of the employee. The maximum balance outstanding at the end of any month during the year was Rs. 1.160 million (June 30, 2007: 1.460 million).

### 5 LONG-TERM DEPOSITS

Balance at beginning of year	359,880	244,380
Add: deposit made during the year	6,500	115,500
Balance at end of year	<u>366,380</u>	<u>359,880</u>

5.1 These include interest free refundable deposits given to various Government Agencies and suppliers of services.

## Notes to the Financial Statements

### for the year ended June 30, 2008

		June 30 2008	June 30 2007
	Note	Rupees	Rupees
<b>6 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		8,583,762	7,424,441
Spare parts	6.1	5,934,815	12,909,242
Loose tools		28,017	38,144
		<u>14,546,594</u>	<u>20,371,827</u>

6.1 These include spare parts in transit amounting to Rs.1,825,151 (June 30, 2007: Rs. 1,875,432).

### 7 STOCK-IN-TRADE

Raw material	7.1	314,008,148	245,678,047
Work-in-process		26,732,518	10,002,680
Finished goods			
- manufactured yarn	7.2	124,702,219	48,626,231
- purchased yarn		15,521,534	10,118,808
		140,223,753	58,745,039
Waste		299,245	208,793
		<u>481,263,664</u>	<u>314,634,559</u>

7.1 These include raw material in transit amounting to Rs.44,910,361 (June 30, 2007: Rs. 29,612,624).

7.2 Finished goods of Rs. Nil (June 30, 2007: Rs.3,248,715) are being carried at net realizable value as per policy stated in note 2.4.4.

### 8 TRADE DEBTS

Foreign			
- secured, considered good	8.1	97,803,402	119,088,049
- unsecured, considered good		9,065,053	12,426,914
		106,868,455	131,514,963
Local - unsecured, considered good			
- associated companies	8.2	27,142,587	19,424,409
- others		42,468,882	47,425,803
		69,611,469	66,850,212
		<u>176,479,924</u>	<u>198,365,175</u>

8.1 These are secured through letters of credit.

8.2 Trade debts arose in the normal course of business include amount due from following associated companies:

Sapphire Textile Mills Limited	1,080,427	1,199,883
Sapphire Fibres Limited	17,854,092	17,378,815
Sapphire Power Generations Limited	-	10,511
Diamond Fabrics Limited	8,208,068	835,200
	<u>27,142,587</u>	<u>19,424,409</u>



## Notes to the Financial Statements

for the year ended June 30, 2008

	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>9 LOANS AND ADVANCES</b>			
Current portion of long-term loans	4	300,000	300,000
Advances to:			
- staff - secured, considered good	9.1	466,000	424,750
- suppliers - unsecured, considered good		1,429,440	131,545
Letters of credit		-	10,016
		<u>2,195,440</u>	<u>866,311</u>
9.1 These are secured against employee retirement benefits and will be adjusted against salaries of the employees.			
<b>10 DEPOSITS AND SHORT-TERM PREPAYMENTS</b>			
Bank guarantee margin		173,809	173,809
Prepaid insurance		58,408	37,464
		<u>232,217</u>	<u>211,273</u>
<b>11 OTHER RECEIVABLES</b>			
Export rebate receivable		2,882,868	1,938,590
Sundry receivables		143,600	409,369
		<u>3,026,468</u>	<u>2,347,959</u>
<b>12 ADVANCE INCOME TAX</b>			
Advance income tax at beginning of year		1,678,046	1,483,728
Add: Advance income tax paid during the year		15,835,515	15,847,543
		17,513,561	17,331,271
Less:			
- transferred to income tax refundable		(1,678,046)	(1,483,728)
- provision for taxation - current	29.1	(13,656,889)	(14,169,497)
Advance income tax at end of year		<u>2,178,626</u>	<u>1,678,046</u>
<b>13 TAX REFUNDS DUE FROM THE GOVERNMENT</b>			
Sales tax refundable	13.1	8,961,731	9,099,137
Income tax refundable		4,975,191	3,174,510
		<u>13,936,922</u>	<u>12,273,647</u>
13.1 These represent accumulated difference of input tax on purchases and output tax payable.			
<b>14 CASH AND BANK BALANCES</b>			
Cash-in-hand		224,000	2,285,335
Cash at banks on current accounts		13,326,920	4,445,724
		<u>13,550,920</u>	<u>6,731,059</u>

## Notes to the Financial Statements

### for the year ended June 30, 2008

	June 30 2008	June 30 2007
Note	Rupees	Rupees
<b>15 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL</b>		
10,292,000 (June 30, 2007: 10,292,000) ordinary shares of Rs. 10 each fully paid in cash.	<u>102,920,000</u>	<u>102,920,000</u>

15.1 There was no movement in share capital during the year.

15.2 The Company has only one class of ordinary shares which carry no right to fixed income. The holder of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to Company's residual assets.

15.3 The Company has no reserved shares for issue under option and sales contracts.

15.4 Following shares were held by associates of the Company as at the balance sheet date:

	June 30 2008	June 30 2007
	Number of ordinary shares of Rs. 10 each	
Reliance Textiles Limited	1,090,000	1,090,000
Diamond Fabrics Limited	1,761,200	929,200
Neelum Textile Mills Limited	267,000	267,000
Amer Fabrics Limited	832,800	832,800
Sapphire Textile Mills Limited	1,295,000	1,295,000
Sapphire Fibres Limited	1,538,900	1,538,900
Sapphire Agencies (Private) Limited	688,000	688,000
Amer Cotton Mills (Private) Limited	1,685,300	1,685,300
	<u>9,158,200</u>	<u>8,326,200</u>

## 16 LONG-TERM FINANCING

From banking companies - secured

Term finance - II	16.1	67,760,000	135,520,000
Term finance - III	16.2	12,240,000	24,480,000
		80,000,000	160,000,000
Less: current portion		80,000,000	80,000,000
		<u>                    </u>	<u>80,000,000</u>

16.1 This term finance facility was for approved limit of Rs. 200 million and obtained from Hong Kong and Shanghai Banking Corporation Limited to finance imported plant and machinery. During the year ended June 30, 2007, under the LTF-EOP Scheme of State Bank of Pakistan, Hong Kong and Shanghai Banking Corporation Limited transferred Rs. 30.60 million to the facility created under the LTF-EOP facility of State Bank of Pakistan. The facility carries mark-up at the rate of three month average KIBOR plus 1.00 % per annum, payable on quarterly basis. During the year the effective rate ranged from 10.58% to 11.13% (June 30, 2007: 10.20% to 11.39%) per annum. It is secured against exclusive charge of Rs. 250 million on plant and machinery of the Company. The facility is repayable in five equal semi annual installments commenced from June, 2007.

16.2 This facility has been created under the LTF-EOP Scheme of State Bank of Pakistan from the existing facility of Rs. 200 million of Hong Kong and Shanghai Banking Corporation Limited. The facility carries mark-up at the rate of 6.00% (June 30, 2007: 6.00%) per annum, payable on quarterly basis. It is secured against exclusive charge of Rs. 250 million on plant and machinery of the Company. The facility is repayable in five equal semi annual installments commenced from June, 2007.

## Notes to the Financial Statements

### for the year ended June 30, 2008

	June 30 2008	June 30 2007	
Note	Rupees	Rupees	
<b>17 DEFERRED-EMPLOYEE BENEFITS</b>	17.1	13,846,225	10,059,120
<b>17.1 Deferred employee benefits</b>			
<b>(a) Movement in net liability recognized in the balance sheet:</b>			
At the beginning of year	10,059,120	8,415,742	
Add: expense charged to profit and loss account	6,652,323	4,629,165	
Less: payments during the year	(2,865,218)	(2,985,787)	
At the end of year	<u>13,846,225</u>	<u>10,059,120</u>	
<b>(b) Balance sheet reconciliation as at balance sheet date:</b>			
Present value of obligations	16,264,563	11,836,838	
Less: unrecognized actuarial losses	(2,418,338)	(1,777,718)	
Liability recognized in the balance sheet	<u>13,846,225</u>	<u>10,059,120</u>	
<b>(c) Charge for the year:</b>			
Current service cost	5,371,133	3,584,671	
Interest cost	1,181,884	902,671	
Actuarial loss charged	99,306	141,823	
Expense recognized in the profit and loss account	<u>6,652,323</u>	<u>4,629,165</u>	
<b>(d) Principal actuarial assumptions:</b>	<b>June 30 2008</b>	<b>June 30 2007</b>	
Projected Unit Credit Method, based on the following significant assumptions, is used for valuation of gratuity:			
Discount rate - per annum	12%	10%	
Expected rate of growth per annum in future salaries	11%	9%	
Average expected remaining working life time of employees	5 years	6 years	
The most recent valuation was carried out as at June 30, 2008 using the "Projected unit Credit Method". Actuarial gains / losses are recognized in accordance with the limits set-out by IAS - 19 ("Employee Benefits").			

#### 17.1.1 History of present value of deferred employee benefits

	September 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007	June 30, 2008
	..... Rupees .....				
Present value of defined obligations at the end of the year	7,532,564	4,502,315	10,029,679	11,836,838	16,264,563
Experience adjustment arising on plan liabilities (gains)/losses	189,905	513,521	497,386	65,634	739,926

- 17.2 During the year deferred tax provision has not been recognized, as the income of the Company is being assessed under the final tax regime. Please refer note 29.3 to the financial statements.

## Notes to the Financial Statements

### for the year ended June 30, 2008

	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>18 TRADE AND OTHER PAYABLES</b>			
Creditors	18.1	5,040,070	5,165,199
Advances from customers		1,087,192	1,484,858
Bills payable		5,338,524	13,418,668
Accrued liabilities	18.2	29,188,292	19,055,840
Workers' profit participation fund	18.3	4,486,897	3,960,785
Workers' welfare fund		202,386	45,281
Infrastructure fee		8,709,701	6,588,095
Unclaimed dividend		138,658	130,149
Others		40,000	78,000
		<u>54,231,720</u>	<u>49,926,875</u>

18.1 Creditors include Rs.1,304,683 (June 30, 2007: Rs.488,801) payable to associated companies.

18.2 Accrued liabilities includes Rs.3,401,947 (June 30, 2007: 3,326,586) payable to associated companies.

#### 18.3 Workers' profit participation fund

At beginning of year		3,960,785	1,904,306
Add:			
- interest on funds utilized in the Company's business	18.4	160,168	87,190
- allocation for the year		4,486,897	3,960,785
		<u>4,647,065</u>	<u>4,047,975</u>
		8,607,850	5,952,281
Less: Amount paid		(4,120,953)	(1,991,496)
At end of year	27	<u>4,486,897</u>	<u>3,960,785</u>

18.4 Interest on workers' profit participation fund has been provided at the rate of 12.01 % (June 30, 2007: 12.11%) per annum.

#### 19 MARK-UP ACCRUED ON LOANS

Mark-up accrued on:

- long-term financing		2,984,878	5,120,702
- short-term borrowings	19.1	13,921,935	7,257,201
		<u>16,906,813</u>	<u>12,377,903</u>

19.1 This includes mark up payable Rs. 0.268 million (2007 : Nil) to Standard Chartered Bank (Pakistan) Limited. (related party)

#### 20 SHORT-TERM BORROWINGS

From banking companies-secured

- running finance		435,759,286	105,947,942
- cash finance		46,454,681	224,562
- export finance		50,000,000	266,817,577
		<u>532,213,967</u>	<u>372,990,081</u>

20.1 The aggregate unavailed short-term borrowings facilities as at June 30, 2008 amounting to Rs. 1,247.79 million (June 30, 2007: Rs. 1,567.01 million).

20.2 These facilities have been obtained from various commercial banks for working capital requirements, under mark-up arrangements against aggregate sanctioned limit of Rs. 2,740 million (June 30, 2007: Rs. 1,940 million). These facilities carry mark-up at the rates ranging from 4.96% to 15.13% (June 30, 2007: 5.65% to 12.42%) per annum on daily product basis payable quarterly. The aggregate short-term borrowings facilities are secured against hypothecation charge amounting to Rs. 1,847 million (June 30, 2007: Rs.1,343 million) on current assets of the Company. These facilities are expiring on various dates by November 30, 2008.

## Notes to the Financial Statements for the year ended June 30, 2008

- 20.3** Facilities available for opening letters of credit and guarantees aggregate to Rs. 960 million (June 30, 2007: Rs.590 million) of which facilities amounting to Rs. 895 million (June 30, 2007: Rs.553.64 million) were un-utilized at the year end. These facilities are secured against lien on shipping documents, current assets and cash margins. These facilities are expiring on various dates by November 30, 2008.
- 20.4** This include short term finance in an aggregate amount Rs. 2.356 million (2007 : Nil) related to Standard Chartered Bank (Pakistan) Limited. (related party)

	Note	June 30 2008 Rupees	June 30 2007 Rupees
<b>21 CONTINGENCIES AND COMMITMENTS</b>			
<b>21.1 CONTINGENCIES</b>			
Guarantees have been issued by banks in favour of Government departments on behalf of the Company in the normal course of business.		13,816,100	13,937,705
The Company has issued post dated cheques in favour of Collector of Sales Tax and Federal Excise.		57,030,940	32,384,451
<b>21.2 COMMITMENTS</b>			
Commitments for:			
Irrevocable letters of credit for:			
- stores and spares		7,801,603	3,615,572
- raw materials		51,638,697	10,688,774
Rentals due under operating lease agreement in respect of godown:			
- payable within one year		423,500	-
		<u>59,863,800</u>	<u>14,304,346</u>

## 22 SALES - NET

	For the year ended June 30, 2008			For the year ended June 30, 2007		
	Export	Local	Total	Export	Local	Total
	Rupees					
Yarn	887,325,071	184,031,898	1,071,356,969	1,058,850,111	221,415,333	1,280,265,444
Yarn (under SPO)	181,133,740	-	181,133,740	36,933,050	-	36,933,050
Waste	-	25,762,499	25,762,499	-	23,937,991	23,937,991
	1,068,458,811	209,794,397	1,278,253,208	1,095,783,161	245,353,324	1,341,136,485
Processing fee	-	1,494,662	1,494,662	-	1,828,938	1,828,938
Export rebate	7,114,517	-	7,114,517	3,709,512	-	3,709,512
	1,075,573,328	211,289,059	1,286,862,387	1,099,492,673	247,182,262	1,346,674,935
Less:						
Commission and discount	33,474,630	431,285	33,905,915	32,112,480	1,667,452	33,779,932
	<u>1,042,098,698</u>	<u>210,857,774</u>	<u>1,252,956,472</u>	<u>1,067,380,193</u>	<u>245,514,810</u>	<u>1,312,895,003</u>

## Notes to the Financial Statements

for the year ended June 30, 2008

	Note	For the year ended	For the year ended
		June 30 2008	June 30 2007
		Rupees	Rupees
<b>23 COST OF SALES</b>			
Raw material consumed	23.1	789,589,739	729,431,064
Packing material consumed		19,800,810	18,756,192
Store and spare parts consumed		32,075,727	19,820,935
Salaries, wages and benefits	23.2	81,949,400	74,403,726
Fuel and power		84,514,181	81,768,996
Insurance		4,581,142	4,551,910
Repair and maintenance		2,302,656	1,704,077
Doubling charges		-	567,909
Other manufacturing overheads		5,313,424	3,002,548
Depreciation	3.1.1	48,351,852	50,340,200
		<u>1,068,478,931</u>	<u>984,347,557</u>
Work-in-process			
At beginning of year		10,002,680	13,920,040
At end of year		(26,732,518)	(10,002,680)
		<u>(16,729,838)</u>	<u>3,917,360</u>
Cost of goods manufactured		<u>1,051,749,093</u>	<u>988,264,917</u>
Finished goods			
At beginning of year		58,953,832	104,357,147
Yarn purchased		66,829,335	67,726,239
At end of year		(140,522,998)	(58,953,832)
		<u>(14,739,831)</u>	<u>113,129,554</u>
Cost of goods sold		<u><u>1,037,009,262</u></u>	<u><u>1,101,394,471</u></u>
<b>23.1 Raw material consumed</b>			
At beginning of year		216,065,423	161,349,362
Purchases - Net		842,157,075	783,671,307
		<u>1,058,222,498</u>	<u>945,020,669</u>
Less: Closing stock		(269,097,787)	(216,065,423)
		<u>789,124,711</u>	<u>728,955,246</u>
Add: Cotton cess		465,028	475,818
At end of year		<u><u>789,589,739</u></u>	<u><u>729,431,064</u></u>
<b>23.2 Salaries, wages and benefits include Rs.4,722,390 (June 30, 2007: Rs. 3,417,292) in respect of employee benefits - gratuity.</b>			
<b>24 OTHER OPERATING INCOME</b>			
<b>Income from financial assets</b>			
- foreign exchange gain		5,842,031	144,743
<b>Income from assets other than financial assets</b>			
- gain on disposal of property, plant and equipment	3.3	687,319	269,613
- scrap sales		1,325,885	1,849,710
		<u>7,855,235</u>	<u>2,264,066</u>
<b>25 DISTRIBUTION COST</b>			
<b>Local</b>			
- salaries, allowances and benefits		3,128,338	2,001,864
- postage, telephone and telegram		226,835	114,152
- traveling, conveyance and entertainment		870,942	699,319
- printing, stationery and others		674,827	59,861
- freight handling and octroi		133,300	882,692
<b>Export</b>			
- export development surcharge		2,272,375	2,667,109
- freight handling and octroi		44,597,820	48,936,341
- insurance charges		112,617	261,540
		<u><u>52,017,054</u></u>	<u><u>55,622,878</u></u>

## Notes to the Financial Statements

### for the year ended June 30, 2008

	Note	For the year ended	For the year ended
		June 30 2008	June 30 2007
		Rupees	Rupees
<b>26 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and benefits	26.1	11,390,301	7,459,412
Postage, telephone and telegram		383,268	423,767
Fees and subscription		142,370	327,668
Printing and stationery		218,427	183,301
Traveling and conveyance		80,486	471,387
Repair and maintenance		79,063	787,016
Legal and professional charges		852,122	1,096,772
Advertisement		626,000	530,371
Entertainment		328,489	52,343
Others		1,432,936	501,200
Donation	26.2	1,025,000	1,240,000
Utility charges		108,896	231,387
		<b>16,667,358</b>	<b>13,304,624</b>

26.1 Salaries, allowances and benefits include Rs. 1,929,933 (June 30, 2007: Rs. 1,211,873) in respect of employee benefits.

26.2 No director or his spouse has any interest in the donee.

## 27 OTHER OPERATING EXPENSES

Auditors' remuneration	27.1	325,656	314,985
Workers' profit participation fund	18.3	4,486,897	3,960,785
Workers' welfare fund	27.2	157,105	45,281
		<b>4,969,658</b>	<b>4,321,051</b>
<b>27.1 Auditors' remuneration</b>			
Annual audit		175,000	175,000
Half-yearly review		70,000	60,000
Compliance report on Code of Corporate Governance		50,000	50,000
Out-of-pocket expenses		30,656	29,985
		<b>325,656</b>	<b>314,985</b>

27.2 Provision for worker's welfare fund has been recognized under section 4(1) of Workers' Welfare Fund Ordinance, 1971.

## 28 FINANCE COST

Mark-up on:			
Long-term financing		11,883,391	21,998,214
Short-term borrowings	28.1	43,353,644	33,916,312
Interest on workers' profit participation fund		160,168	87,190
Bank charges and commission		9,657,231	9,304,703
		<b>65,054,434</b>	<b>65,306,419</b>

28.1 Finance cost include mak up of Rs. 1.783 million (2007 : Nil) charged by Standard Chartered Bank (Pakistan) Limited. (associated bank)

## Notes to the Financial Statements

### for the year ended June 30, 2008

	Note	For the year ended	For the year ended
		June 30 2008	June 30 2007
		Rupees	Rupees
<b>29 PROVISION FOR TAXATION</b>			
Provision for income tax	29.1	13,534,255	16,365,765
Deferred taxation	29.3	-	(6,895,492)
		<u>13,534,255</u>	<u>9,470,273</u>
<b>29.1 Provision for income tax</b>			
At beginning of year		16,365,765	11,054,441
Provision / (reversal) made during the year:			
- current year	12	13,656,889	14,169,497
- prior period		(122,634)	2,196,237
		<u>13,534,255</u>	<u>16,365,734</u>
		29,900,020	27,420,175
Less: Adjustments made during the year against completed assessment		(16,365,765)	(11,054,410)
At end of year		<u>13,534,255</u>	<u>16,365,765</u>

- 29.2** The Company falls under the ambit of final tax regime under the Income Tax Ordinance, 2001, provision for income tax is made accordingly. Assessments for the Tax year 2007 are deemed assessments in terms of section 120 (1) of the Income Tax Ordinance 2001.

The tax authorities have initiated amendment proceeding under section 122 (9) of Income Tax Ordinance, 2001, regarding transactions with associated undertakings for the tax year 2003, 2004 and 2005 to ascertain that disclosure of transactions made by such undertaking are also present in the Company books and have been offered for tax.

The Company has filed appeals for the tax years 2003 to 2005 before Income Tax Appellate Tribunal and for tax year 2006 before Commissioner of Income Tax (Appeals). The appeals are related to the difference of tax rate charged by the Taxation Officer and as claimed by the appellant. Appeals are pending for hearing therefore, no corresponding adjustments have been incorporated in these financial statements.

	Note	For the year	For the year
		ended June 30, 2008	ended June 30, 2007
		Rupees	Rupees
<b>29.3 Deferred taxation</b>			
Opening balance of deferred tax liability		-	6,895,492
Add: Provision / (reversal) for deferred tax liability included in profit and loss account		-	(6,895,492)
Closing balance of deferred tax liability		<u>-</u>	<u>-</u>

Deferred tax provision has not been recognized considering that timing differences will not have any tax impact in foreseeable future, as the income of the Company is being assessed under the final tax regime and the management is confident that the Company will continue to be taxed under final tax regime in foreseeable future.

### 30 EARNINGS PER SHARE - basic and diluted

The calculation of basic earnings per share is based on the following data:

<b>Earnings</b>			
Profit after taxation		71,559,686	65,739,353
<b>Number of shares</b>			
Weighted average number of ordinary shares in issue during the year		<u>10,292,000</u>	<u>10,292,000</u>
<b>Earnings per share - basic</b>		<u>6.95</u>	<u>6.39</u>

No figure for diluted earnings per share has been presented as the Company has not issued any instrument carrying options which would have an impact on earnings per share when exercised.



## Notes to the Financial Statements

for the year ended June 30, 2008

	Note	For the year ended	For the year ended
		June 30 2008 Rupees	June 30 2007 Rupees
<b>31 REMUNERATION TO EXECUTIVES</b>			
Managerial remuneration		7,422,522	5,997,343
House rent allowance		2,600,701	2,011,959
Utilities		432,738	447,103
Conveyance		14,400	21,600
Medical expenses		75,427	60,176
Others		408,000	372,000
		<b>10,953,788</b>	<b>8,910,181</b>
<b>Number of persons</b>		<b>7</b>	<b>6</b>

31.1 The executives are also provided with cars maintained by the Company.

31.2 No remuneration or meeting fee was paid to the directors and chief executive officer of the Company.

## 32 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, directors, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of directors and key management personnel is disclosed in note 31 to these financial statements. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transaction	June 30	June 30
		2008 Rupees	2007 Rupees
Associated companies	Sales:		
	- yarn / raw material / stores, spare parts	317,616,039	177,046,538
	- machinery	4,000,000	1,020,000
	Purchase:		
	- yarn / raw material / stores, spare parts	21,507,031	22,925,742
	- machinery	-	790,000
	- electricity	50,527,668	29,448,423
	Services:		
	- rendered	1,494,662	779,931
	- obtained	383,615	4,473,219
	Dividend paid	11,597,550	7,731,700
	Shared expenses paid	1,438,621	1,097,903
	Running Finance Facility-ne	2,356,000	-
Compensation of key management personnel	Mark up on short term finances	1,782,829	-
	Remuneration and other benefits	10,953,788	8,910,181
	Post employment benefits	5,265,408	3,313,427

32.1 All transactions with related parties have been carried out on commercial terms and conditions.

## Notes to the Financial Statements

### for the year ended June 30, 2008

	June 30 2008	June 30 2007
<b>33 PLANT CAPACITY AND ACTUAL PRODUCTION</b>		
<b>Production Capacity</b>		
Total number of spindles installed	26,976	26,976
Number of MVS units installed (in equivalent number of spindles)	920	920
Installed capacity after conversion into 20's count (Lbs)	21,894,873	21,894,873
<b>Actual production</b>		
Number of spindles / MVS worked	26,942	26,573
Number of shifts per day	3	3
Total days worked	364	364
Actual production of yarn after conversion into 20's count (Lbs)	23,321,033	24,051,825

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, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted. Difference of actual production with installed capacity is in normal course of business.

### 34 CAPITAL DISCLOSURE

The Company's objective 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 Company manages its capital structure which comprises capital and reserves 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 shareholders, appropriation of amounts to reserve or/and issue new shares.

## Notes to the Financial Statements

### for the year ended June 30, 2008

#### 35 FINANCIAL INSTRUMENTS

##### 35.1 Mark up rate risk management

Mark up rate risk arise from the possibility that changes in mark up rates will affect the value of financial instruments. The effective mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

	June 30, 2008			June 30, 2007		
	Mark-up bearing	Non-mark up bearing	Total	Mark-up bearing	Non-mark up bearing	Total
<b>R u p e e s</b>						
<b>Financial assets</b>						
<b>Maturity up to one year</b>						
Trade debts	-	176,479,924	176,479,924	-	198,365,175	198,365,175
Loans and advances	-	766,000	766,000	-	724,750	724,750
Deposits	-	173,809	173,809	-	173,809	173,809
Other receivables	-	143,600	143,600	-	409,369	409,369
Cash and bank balance	-	13,550,920	13,550,920	-	6,731,059	6,731,059
<b>Maturity after one year</b>						
Long-term loans	-	860,000	860,000	-	1,160,000	1,160,000
	-	191,974,253	191,974,253	-	207,564,162	207,564,162
<b>Financial liabilities</b>						
<b>Maturity up to one year</b>						
Long-term financing	80,000,000	-	80,000,000	80,000,000	-	80,000,000
Trade and other payables	-	39,745,544	39,745,544	-	37,893,137	37,893,137
Mark-up accrued on loans	-	16,906,813	16,906,813	-	12,377,903	12,377,903
Short-term borrowings	532,213,967	-	532,213,967	372,990,081	-	372,990,081
<b>Maturity after one year</b>						
Long-term financing	-	-	-	80,000,000	-	80,000,000
Deferred employee benefits	13,846,225	-	13,846,225	10,059,120	-	10,059,120
	626,060,192	56,652,357	682,712,549	543,049,201	50,271,040	593,320,241
<b>On balance sheet gap</b>	<b>(626,060,192)</b>	<b>135,321,896</b>	<b>(490,738,296)</b>	<b>(543,049,201)</b>	<b>157,293,122</b>	<b>(385,756,079)</b>
<b>Off balance sheet items:</b>						
Bank guarantee	-	13,816,100	13,816,100	-	13,937,705	13,937,705
Post dated cheques	-	57,030,940	57,030,940	-	32,384,451	32,384,451
Letter of credits						
- stores and spares	-	7,801,603	7,801,603	-	3,615,572	3,615,572
- raw materials	-	51,638,697	51,638,697	-	10,688,774	10,688,774
Rentals due under operating lease	-	423,500	423,500	-	-	-
<b>Off balance sheet gap</b>	<b>-</b>	<b>130,287,340</b>	<b>130,287,340</b>	<b>-</b>	<b>60,626,502</b>	<b>60,626,502</b>

##### 35.2 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs. 191.974 million (June 30, 2007: Rs. 207.564 million), the financial assets which are subject to credit risk amounted to Rs. 78.820 million (June 30, 2007: Rs. 79.61 million) in respect of unsecured trade debts and other receivables. The Company seeks to minimize the credit risk exposure through dealings with customers considered credit worthy and obtaining securities where applicable.

## Notes to the Financial Statements for the year ended June 30, 2008

### 35.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to effective cash management and planning policy, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

### 35.4 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Company is not exposed to any significant foreign currency risk. As at June 30, 2008 total foreign currency risk exposure was Rs. 106.868 million (June 30, 2007: Rs. 131.514 million) in respect of trade debts. The Company incurs foreign currency risk on sales and purchases that are entered in a currency other than Pak Rupees.

### 35.5 Fair value of financial instruments

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

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

## 36 DIVIDEND

In respect of current year, the board of directors proposed to pay cash dividend of Rs. 10,292,000 @ Re1.00 per ordinary share of Rs. 10 each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment.

## 37 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the board of directors of the Company and authorized for issue on October 06, 2008

## 38 RE-CLASSIFICATION AND RE-ARRANGEMENTS

Corresponding figures have been re-classified and re-arranged wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison. Significant re-arrangements are as follows:

From	To	Reason	Amount
<b>Balance sheet</b>			
Cash and bank balances	Loans and advances	For better presentation	298,000
<b>Profit and loss account</b>			
Sales net-export development surcharge	Distribution cost	For better presentation	2,667,109
Sales net-freight handling and octroi	Distribution cost-export	For better presentation	48,936,341
Sales net-freight handling and octroi	Distribution cost-local	For better presentation	882,692
Sales net-insurance charges	Distribution cost	For better presentation	261,540
<b>Cash flow statement</b>			
Cash and cash equivalent at end of year	Loans and advances	For better presentation	298,000

## 39 GENERAL

Figures have been rounded off to the nearest Rupee.

**Pattern of Shareholding as at June 30, 2008**

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
22	1	100	1,403
53	101	500	25,485
21	501	1000	20,300
18	1001	5000	50,112
8	5001	10000	65,000
6	10001	15000	77,000
1	15001	20000	16,400
1	20001	25000	25,000
1	60001	65000	61,500
1	65001	70000	70,000
1	135001	140000	137,500
1	140001	145000	144,600
2	155001	160000	317,500
1	265001	270000	267,000
1	380001	385000	382,250
1	390001	395000	393,750
1	490001	495000	493,500
1	565001	570000	566,700
1	770001	775000	772,500
1	825001	830000	829,200
1	830001	835000	832,800
1	990001	995000	995,000
1	1085001	1090000	1,090,000
1	1115001	1120000	1,118,600
1	1535001	1540000	1,538,900
<b>148</b>	<b>Total</b>		<b>10,292,000</b>

CATEGORY OF SHAREHOLDERS	Shares	Percentage
Associated Companies	8,504,200	82.6292
NIT & ICP	776,000	7.5398
Directors, CEO, spouses and M. Children	705,000	6.8500
Banks, DFI & NBF1	3,600	0.0350
Modaraba Companies	600	0.0058
General Public	302,600	2.9401
	<b>10,292,00</b>	<b>100.000</b>

## Pattern of Shareholding as at June 30, 2008

A)	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
	Amer Cotton Mills (Private) Limited	1,685,300
	Amer Fabrics Limited	832,800
	Diamond Fabrics Limited	829,200
	Neelum Textile Mills Limited.	267,000
	Reliance Textiles Limited	1,090,000
	Sapphire Agencies (Pvt) Ltd.	1,266,000
	Sapphire Fibres Limited	1,538,900
	Sapphire Textile Mills Limited.	995,000
B)	NIT & ICP	
	National Bank of Pakistan Trustee Department	382,250
	NBP Trustee -NI(U)T (LOC) Fund	393,750
C)	DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSES AND MINOR CHILDREN	
	DIRECTORS & THEIR SPOUSES	
	Mr. Mohammad Abdullah.	12,667
	Mrs. Shamshad Begum	12,500
	Mr. Amer Abdullah.	137,500
	Mrs. Ambareen Amer	33,000
	Mr. Mohammad Yamin.	500
	Mr. Mohammad Younus	500
	Mr. Nadeem Abdullah.	12,667
	Mrs. Noshaba Nadeem.	160,000
	Mr. Shahid Abdullah.	12,666
	Mrs. Shireen Shahid.	173,900
	CHIEF EXECUTIVE OFFICER & HIS SPOUSE	
	Mr. Yousuf Abdullah.	149,100

## Pattern of Shareholding as at June 30, 2008

D)	BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS	
	Bankers Equity Limited	3,500
	National Development Finance Corporation	100
	MODARABA COMPANIES	
	First Punjab Modaraba	500
	Trust Modaraba	100
E)	SHAREHOLDERS HOLDING 10% OR MORE	
	Sapphire Fibres Limited	1,538,900
	Reliance Textiles Limited	1,090,000
	Amer Cotton Mills (Private) Limited	1,685,300
	Sapphire Agencies (Private) Limited	1,210,000
F)	TRADING IN THE SHARES OF COMPANY DURING THE YEAR BY THE DIRECTORS, CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER, COMPANY SECRETARY AND THEIR SPOUSES AND MINOR CHILDREN.	
	Shares purchased during the year by Mrs. Ambareen Amer	500
	Shares sold during the year by Mrs. Ambareen Amer	500
	Shares purchased during the year by Mrs. Shireen Shahid	20,900
	Shares purchased during the year by Mr. Yousuf Abdullah	4,500

## Profit and Loss account for the year ended June 30, 2008

	Note	For the year ended June 30, 2008	For the year ended June 30, 2007
		Rupees	Rupees
Sales - net	22	1,252,956,472	1,312,895,003
Cost of sales	23	1,037,009,262	1,101,394,471
<b>Gross profit</b>		215,947,210	211,500,532
Other operating income	24	7,855,235	2,264,066
		223,802,445	213,764,598
Distribution cost	25	52,017,054	55,622,878
Administrative expenses	26	16,667,358	13,304,624
Other operating expenses	27	4,969,658	4,321,051
Finance cost	28	65,054,434	65,306,419
		138,708,504	138,554,972
<b>Profit before taxation</b>		85,093,941	75,209,626
Provision for taxation	29	13,534,255	9,470,273
<b>Profit for the year</b>		71,559,686	65,739,353
<b>Earnings per share - basic and diluted</b>	30	<b>6.95</b>	<b>6.39</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

Karachi :  
October 06, 2008

**Yousuf Abdullah**  
Chief Executive

**Muhammad Abdullah**  
Director



## Form of Proxy

I/WE \_\_\_\_\_

Of \_\_\_\_\_

a member(s) of **RELIANCE COTTON SPINNING MILLS LIMITED** and a holder of \_\_\_\_\_  
ordinary shares, do hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or failing him \_\_\_\_\_

of \_\_\_\_\_

a member of **RELIANCE COTTON SPINNING MILLS LIMITED**, vide Registered Folio No. \_\_\_\_\_

as my/ our proxy to act on my/ our behalf at the 19th Annual General Meeting of the company to be held on Monday, 27th October, 2008 at 3.30 p.m. at 212, Cotton Exchange Building, I.I. Chundrigr Road, Karachi and or at any adjournment thereof.

Affix Five Rupee Revenue Stamp
---

Signed this \_\_\_\_\_ day of October, 2008

Signature \_\_\_\_\_

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

### NOTICE

1. No proxy shall be valid unless it is duly stamped with a revenue stamp worth Rs. 5/-
2. In the case of Bank or Company, the proxy form must be executed under its common seal and signed by its authorized person.
3. Power of attorney and other authority (if any) under which this proxy form is signed then a notarially certified copy of that power of attorney must be deposited along with this proxy form.
4. This form of proxy duly completed must be deposited at the Registered Office of Company atleast 48 hours before the time of holding the meeting.
5. In case of CDC account holder :
  - i). The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
  - ii). Attested copies of NIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.
  - iii). The proxy shall produce his original NIC or original passport at the time of meeting.

# 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 RELIANCE COTTON SPINNING MILLS LIMITED ("the Company") to comply with the Listing Regulations of Karachi and Lahore Stock Exchanges in Pakistan 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 June 30, 2008.

**M. YOUSUF ADIL SALEEM & CO.**  
**Chartered Accountants**

Lahore :  
October 06, 2008

## Six Years Growth at a Glance

	Y E A R S					
	2008	2007	2006	2005 nine months	2004	2003
Sales	1,252.956	1,312.895	1,065.793	714.258	811.815	672.416
Gross Profit	215.947	211.501	111.604	100.046	72.783	85.710
Profit Befor Tax	85.094	75.210	36.182	59.453	44.285	56.532
Profit After Tax	71.560	65.739	27.304	48.129	34.757	46.722
Share Capital	102.920	102.920	102.920	102.920	102.920	102.920
Shareholder's Equity	504.908	448.787	394.517	378.900	344.001	308.878
Fixed Assets-Net	493.470	495.141	521.868	464.715	355.426	344.390
Total Assets	1,202.107	1,054.141	1,056.313	1078.15	787.528	715.169
<b>DIVIDEND</b>						
CASH	0.00%	15.00%	10.00%	12.50%	12.50%	12.50%
<b>RATIOS:</b>						
Profitability :						
Gross Profit %	17.24	16.11	10.47	14.01	8.97	12.75
Profit Befor Tax %	6.79	5.73	3.39	8.32	5.45	8.26
Profit After Tax %	5.71	5.01	2.56	6.74	4.28	6.96
Return To Shareholders :						
R.O.E-Before Tax %	16.85	16.76	9.17	15.69	12.87	17.98
R.O.E-After Tax %	14.17	14.65	6.92	12.70	10.10	15.14
Basic EPS After Tax Rs.	6.95	6.39	2.65	4.67	3.38	4.54
Activity						
Sales To Total Assets Times	1.042	1.245	1.009	0.65	1.03	0.94
Sales To Fixed Assets Times	2.539	2.660	2.04	1.54	2.28	1.95
Liquidity / Leverage :						
Current Ratio	1.04	1.08	1.10	1.05	1.39	1.05
Debt Equity Ratio Times	-	0.15	0.29	0.22	0.26	0.13
Total Liabilities To Equity Times	1.38	1.35	1.68	1.85	1.29	1.32
Break Up Value Of Shares Rs.	49.06	43.61	38.34	36.81	33.42	30.01

## 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 the Stock Exchanges 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 company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes five non-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. The Directors have declared that all the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFI. None of the Directors is a member of a stock exchange.
4. During the year election of Directors was held and all the existing Directors were re-elected. No casual vacancies occurred in the Board of Directors.
5. The Board have developed and adopted a 'Statement of Ethics and Business Practice', which has been signed by all the directors and employees of the company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. 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 power of 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. No remuneration is being paid to CEO or other directors.
8. The meetings of the Board, which were held during the year were presided by the Chairman and in his absence, by a director elected by the Board for this purpose and Board met at least once in every Quarter. Written notice of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated in time.
9. There was no new appointment of CFO. Mr. Umer Rahi has been appointed as Company Secretary during the year.
10. 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.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.

## Statement of Compliance with the code of corporate governance

13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises of three members, Majority of the members are non executive Directors.
15. 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 prepared in the light of the Code of Corporate Governance and advised to the Committee for compliance.
16. The Board has set up an effective Internal Audit Function.
17. The statutory auditors of the Company have confirmed that they have 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.
18. 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.
19. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Karachi

Dated: 06th October, 2008

**YOUSUF ABDULLAH**  
CHIEF EXECUTIVE

## **Vision**

To be one of the premier textile company recognized for leadership in technology, flexibility, responsiveness and quality.

Our customers will share in our success through innovative manufacturing, certifiable quality, exceptional services and creative alliances. Structured to maintain in depth competence and knowledge about our business, our customers and worldwide markets.

Our workforce will be the most efficient in industry through multiple skill learning, the fostering of learning and the fostering of teamwork and the security of the safest work environment possible recognised as excellent citizen in the local and regional community through our financial and human resources support and our sensitivity to the environment.