

# *VISION/MISSION STATEMENT*

## *VISION*

*We aim at seeing our textile-processing unit to be a model of premier textile processing in the emerging markets in compliance with the requirements of Quality Management System and continuously improving its effectiveness for total customer satisfaction. We wish to play a leading role in the textile sector by keeping a substantial presence in the export markets.*

## *MISSION*

- 1. To turn around performance of company into sustainable growth for the benefit of its stake holders.*
- 2. To provide quality products to customers and explore new markets to promote/expand sales of the Company through good governance and to foster a sound and dynamic team, so as to achieve optimum prices of products of the Company for sustainable and equitable growth and prosperity of the Company.*
- 3. To strive hard for boosting exports of country to earn more and more foreign exchange to rebuild economy.*

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## Company Information

### **BOARD OF DIRECTORS:**

**CHAIRMAN:**

Mr. Salim N. Mukaty

**DIRECTORS:**

Mr. Ashraf Salim Mukaty  
Mr. Yusuf N. Mukaty  
Mr. Noor Muhammad Yusuf Mukaty  
Mr. Arif Haji Abdul Sattar Maniya  
Mr. Luqman F. Poonawala  
Mr. Madni Gul Muhammad  
Mr. Asif Younus Bawany  
Mr. Muhammad Imran Shekhani

**CHIEF EXECUTIVE:**

Mr. Ashraf Salim Mukaty

**CHIEF FINANCIAL OFFICER:**

Haji Younus Bhathda

**COMPANY SECRETARY:**

Mr. Muhammad Iqbal Haroon

**AUDITORS :**

Hyder Bhimji & Co.  
Chartered Accountants

Rauf Ayoob & Co.  
Chartered Accountants

**BANKERS :**

Habib Metropolitan Bank Ltd.  
Soneri Bank Ltd.  
Standard Chartered Bank (Pakistan) Ltd.  
Habib Bank Limited  
Bank Al Habib Ltd.  
Meezan Bank Limited

**REGISTERED OFFICE AND MILLS :**

A/51-A, S.I.T.E.,  
Karachi-75700.  
Tel No. (021) 2578103-16 (14 Lines)  
Fax: (021) 2570086 & 2561050  
Email: liberty@libertymillslimited.com  
Website: www.lml.com.pk

**SHARES REGISTRAR :**

C & K Management Associates (Pvt) Ltd.  
Room No. 404, Trade Tower,  
Abdullah Haroon Road,  
Near Hotel Metropole, Karachi-75530.  
Tel No. 5685930 & 5687839



## Notice of Meeting

Notice is hereby given that **42nd Annual General Meeting** of the shareholders of the Company will be held at our Registered Office, situated at A/51-A, S.I.T.E., Karachi on **Thursday October 30, 2008** at 12:00 noon to transact the following business:

1. To confirm the Minutes of the Extra Ordinary General Meeting of the Company held on July 17, 2008.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2008 together with Directors' and Auditors' report thereon.
3. To approve the payment of cash dividend at Rs. 1.50 per share, i.e., Fifteen percent, for the year ended June 30, 2008 as recommended by the Board of Directors.
4. To appoint Auditors and to fix their remuneration, for the year ending June 30, 2009.
5. To transact any other business which may be placed before the meeting with permission of the Chair.

By Order of the Board

**(Muhammad Iqbal Haroon)**  
Company Secretary

**Karachi:** October 07, 2008

### NOTES:

1. The Share Transfer Books of the Company will remain closed from October 23, 2008 to October 30, 2008 (Both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member of the Company as a proxy to attend and vote on his/her behalf. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the time of meeting.
3. Members are requested to promptly notify the Company or at our Shares Registrar of any change in their addresses.



**CDC Account holders will further have to follow the under mentioned guidelines as laid down in Circular I dated January 26, 2000 issued by the Security and Exchange Commission of Pakistan.**

**A. For Attending the Meeting:**

- (i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulation, shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
- (ii) In case of corporate entity, the Board of Directors' resolutions /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

**B. For Appointing Proxies:**

- (i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulation, shall submit the proxy form as per above requirements.
- (ii) The proxy form shall be witnessed by two persons whose names, Addresses and CNIC numbers shall be mentioned on the form.
- (iii) Attested copies of CNIC or the passport of the beneficial owners and the Proxy shall be furnished with the proxy form.
- (iv) The proxy shall produce his original CNIC or original passport at the time of Meeting.
- (v) In case of corporate entity, the Board of Directors' resolutions /power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.



## Directors' Report

The Board of directors of Liberty Mills Limited are pleased to present the Annual Report along with the annual audited financial statements for the year ended June 30<sup>th</sup>, 2008 before the 42<sup>nd</sup> Annual General Meeting.

### **NATIONAL ECONOMY**

During the year, the economy experienced internal and external pressures due to heightened political tensions, deteriorating law and order situation, aggravating power shortages, cumulative impact of monetary tightening and rising cost of doing business have not only put the economy to real test but has also badly effected the industrial growth. All the major economic sectors, including Agriculture, manufacturing and investment showed poor performance and the economy not only grew at lower level than budgeted but lesser than the past year. This year the economy grew at 5.8% as against the average growth of 6.6% per annum of last five years.

### **TEXTILE INDUSTRY**

The Textile industry during the year under review faced stiff challenges in the shape of rising costs of imported as well as local raw materials, increased in the utility chareges, fuel price hikes and the unprecedented long spell of power and gas outages, This resulted in a huge loss of production. The industry also facing stiff competition from emerging asian economies and the country law and order situation is also hampering in the form of major buyers do not wish to visit the country.

### **COMPANY OPERATIONS**

#### **FINANCIAL RESULTS:**

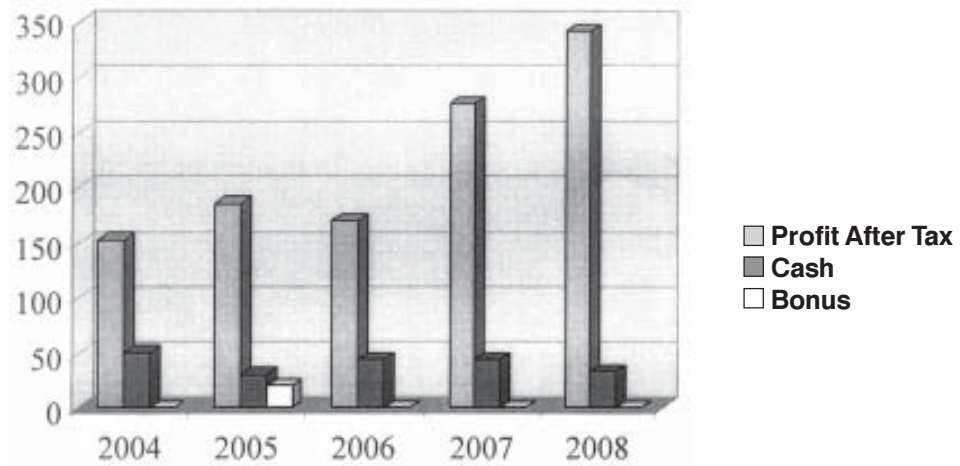
Operating results of the Company are noted below:

	<b>June 30, 2008</b> <b>(Rs. in thousands)</b>	<b>June 30, 2007</b> <b>(Rs. in thousands)</b>
Sales and Services	4,602,043	4,428,140
Gross Profit	762,971	637,864
Profit before Taxation	379,386	328,606
Taxation	(35,675)	(52,309)
Profit after Taxation	341,711	276,297

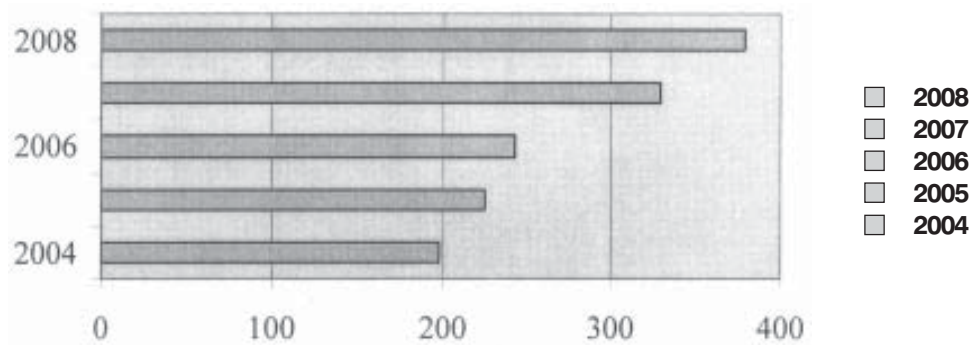
Although the Company's gross sales shows a very small increase as compare to last year the company still been able to earn profit 341.711 million as compare to last year net profits of 276.297 million. The major reason for this rise was the focus on increasing the value added products. The management sustainable cost cut measures and improvements wherever possible in quality had raised these profits.



### Profit After Tax Vs Cash Dividend & Bonus

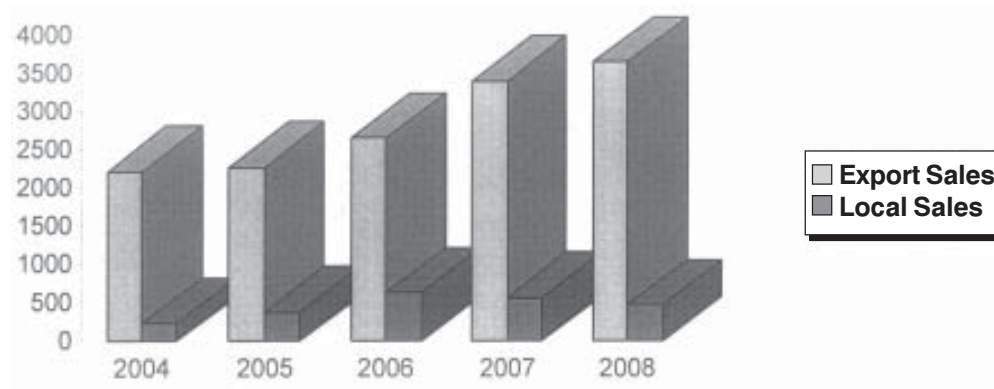


### Profit Before Tax

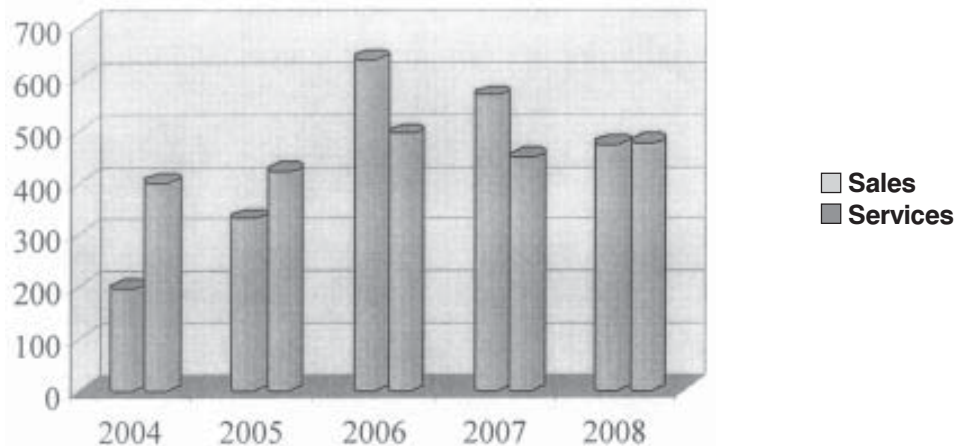




## Export Sales Vs Local Sales



## Sales Vs Services



### **EARNING PER SHARE:**

The Earning per Share has also increased to Rs. 15.11 from previous year 12.22 this is due to strict cost control measures and the impact of research and development support.

### **DIVIDEND:**

The Directors are pleased to recommend Cash dividend @15% i.e. Rs. 1.50 per share for the year ended June 30, 2008.

### **TOTAL QUALITY MANAGEMENT:**

In its pursuit to bring significant operating efficiencies and achieve the highest level of customer satisfaction, The Company has already implemented ISO certification for its complete facilities, ISO 9001 : 2000 certification comprises of written procedures that are supported by records that provide an objective evidence of the existence and implementation of quality management systems.





**CORPORATE SOCIAL RESPONSIBILITY:**

During the year, the Company fully carried out its social responsibilities to the society by supporting many institutions prominent among which are Memon Health Foundation, Behbood Society, Kidney Center, Burhani Blood Bank.

**FUTURE OUTLOOK:**

The Pakistan textile industries are facing a lot of hardship in the current Pakistan scenario, they need new Government support. We hope the new government will make plans to facilitate Pakistani manufacturers to serve and compete in the international market. Such as Government should consider and share the increase in input cost by enhancing the R&D support and allied measures.

**Corporate and Financial Reporting Framework**

The Directors declare that:

- i. The Financial Statements prepared by the management of the company present fairly its state of affairs, the result of its operations, cash flow and changes in equity.
- ii. Proper Books of Accounts have been maintained.
- iii. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- iv. The international Accounting Standards, as applicable in Pakistan, have been followed in preparation of Financial Statements.
- v. The Board is responsible that the Company's system of internal control and reviewing its effectiveness. The Board considers that the Company's system of internal control is sound and has been effectively implemented and monitored.
- vi. There are no significant doubts upon the Company's ability to continue as a going concern.
- vii. There have been no material departures from the best practices of corporate governance, as detailed in the listing regulations.
- viii. Un-audited Half yearly financial statements after limited review by the statutory auditors are circulated in time along with Director's Review on the affairs of the Company.
- ix. The CEO as well as CFO duly signed the Financial Statements presented to the Board of Directors for approval.
- x. Key operating and financial data for last six years in summarized form is also enclosed in the annual report.
- xi. The Company has complied with all the corporate and financial reporting requirements of the code.



### Number of Board Meeting held during the year and attendance of each Director.

During the year six board meetings were held and each director has attended meetings as follows:

<u>Name of Director</u>	<u>Meetings Attended</u>
1. Mr. Salim N.Mukaty	4
2. Mr. Ashraf Salim Mukaty	6
3. Mr. Yusuf N. Mukaty	6
4. Mrs. Hamida Salim Mukaty	3 (Till May 02, 2008)
5. Mr. Noor Muhammad Yusuf Mukaty	6
6. Mr. Arif Haji Abdul Sattar Maniya	6
7. Mr. Luqman F. Poonawala	6
8. Mr. Madni Gul Muhammad	6
9. Mr. Asif Younus Bawany	6
10. Mr. Muhammad Imran Sheikhani	Nil (App. May 03, 2008)

### AUDIT COMMITTEE:

The audit committee comprised of the following three Directors for the year ended June 30, 2008:

1. Mr. Salim N. Mukaty
2. Mr. Arif Haji Abdul Sattar Maniya
3. Mr. Madni Gul Muhammad

### INTERNAL AUDIT FUNCTION:

The Audit Committee is fully assisted by the Internal Audit function in maintaining a sound system of internal controls,

### PATTERN OF SHAREHOLDINGS:

The Pattern of Shareholdings and additional information regarding pattern of shareholdings as on June 30, 2008 is attached to the financial statements included in this report.

### AUDITORS:

The present auditors Hyder Bhimji & Co. Chartered Accountants and Rauf Ayoob & Co., Chartered Accountants retire and being eligible have offered themselves for reappointment. The external auditors have been given satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP). The Board and audit committee has recommended their names as Auditors for the ensuring year consideration in the forth coming Annual General Meeting.

### ACKNOWLEDGEMENT:

In the end, your Directors are pleased to appreciate for the services rendered by the workers, staff and executives of the Company and look forward to their continued efforts and dedication. We also acknowledge the cooperation extended by our banks and financial institutions. At the same time we thank for the wishes of our valued shareholders.

Thanks to all of you

For and on behalf of the Board of Directors  
**Ashraf S. Mukaty**  
 Chief Executive

Karachi: October 07, 2008



## Key operating and financial data:

Rupees in Million

	2008	2007	2006	2005	2004	2003
Sales	4,602	4,428	3,784	3,025	2,820	2,852
Gross Profit	763	638	518	441	389	384
Operating Profit	474	395	311	269	233	237
Profit before Tax	379	329	243	225	198	194
Tax	35	52	72	39	45	44
<b>Profit after Tax</b>	<b>342</b>	<b>276</b>	<b>171</b>	<b>186</b>	<b>153</b>	<b>150</b>
Total Assets	3,322	2,978	2,714	2,453	1,930	1,773
Current Liabilities	1,605	1,608	1,140	837	929	756
	<b>1,717</b>	<b>1,371</b>	<b>1,574</b>	<b>1,616</b>	<b>1,001</b>	<b>1,017</b>
Represented by:						
Share Capital	226	226	226	206	206	179
Reserves and unappropriated profit	1,247	950	719	503	368	260
Equity	1,473	1,176	945	709	574	439
Long Term Loans	170	122	573	785	323	491
Deferred Liability	75	73	56	122	104	87
	<b>1,717</b>	<b>1,371</b>	<b>1,574</b>	<b>1,616</b>	<b>1,001</b>	<b>1,017</b>
Cash Dividend (% age)	15%	20%	20%	15%	25%	10%
Bonus (% age)	—	—	—	10%	—	15%

# LIBERTY MILLS LIMITED



## ANALYSIS OF FINANCIAL STATEMENTS

<b>AS AT 30TH JUNE, 2008</b>	<b>Vertical Analysis Composition of Balance</b>	<b>Vertical Analysis Composition of Balance</b>	<b>Horizontal Analysis % Change</b>
	<b>2008</b>	<b>2007</b>	<b>2008 vs 2007</b>
<b>SHARE CAPITAL</b>			
Issed, subscribed and paid up capital	6.81%	7.59%	–
General reserve - revenue	26.19%	19.14%	52.63%
Unappropriated profit	11.33%	12.76%	
<b>NON-CURRENT LIABILITIES</b>			25.21%
Long term financing	4.22%	4.11%	14.46%
Loans from related parties	0.90%	–	–
Deferred liabilities	2.25%	2.42%	3.68%
<b>CURRENT LIABILITIES</b>			(0.18)%
Trade and other payables	15.63%	19.08%	(8.69)%
Accrued mark-up	0.67%	0.39%	–
Short term borrowing	31.24%	26.07%	33.67%
Current portion of long term financing and loans from related parties	0.76%	8.39%	(89.94)%
Provision for income tax net of payment	0.01%	0.05%	(71.59)%
	<b>100.00</b>	<b>100.00</b>	<b>11.54</b>
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>	<b>2008</b>	<b>2007</b>	<b>2008 vs 2007</b>
<b>Fixed asset</b>			2.38%
Property, plant & equipment	39.14%	42.64%	2.39%
Investment property	0.05%	0.06%	
Long term investment	0.05%	0.04%	16.93%
Long term loans and advances	0.72%	0.69%	
Long term deposits	0.08%	0.09%	(0.20)%
<b>CURRENT ASSETS</b>			
Store, spares and loose tools	3.41%	3.18%	
Stock-in-trade	22.53%	20.02%	25.52%
Trade debts	25.77%	23.55%	22.06%
Loans and advances	1.00%	1.04%	
Deposits and prepayments	0.05%	0.02%	168.19%
Other receivables	1.70%	2.16%	(12.30)%
Tax refunds due from government	1.10%	1.17%	
Financial assets at fair value through profit & loss	0.25%	0.67%	(58.39)%
Cash and bank balances	4.15%	4.67%	(1.04)%
	<b>100.00%</b>	<b>100.00%</b>	<b>11.54</b>



**ANALYSIS OF FINANCIAL STATEMENTS**

	<b>2008</b>	<b>2007</b>
ROCE	27.62	28.85
NP margin	10.31	8.93
GP margin	16.58	14.40
Current Ratio	1.24	1.05
Quick Ratio	0.77	0.68
Inventory Turnover (times)	512.88	6.36
Accounts Receivable ratio (days)	67.89	57.81
Accounts payable payment period (days)	48.98	54.55
Inventory holding period (days)	71.17	57.43

**PROFIT AND LOSS ACCOUNT**

	<b>Vertical Analysis Composition of P&amp;L  2008</b>	<b>Vertical Analysis Composition of P&amp;L  2007</b>
Sales and services	100.00%	100.00%
Cost of sales and services	(83.42)%	(85.60)%
Gross profit	16.58%	14.40%
Administration expenses	(2.86)%	(2.85)%
Distribution cost	(3.56)%	(2.33)%
Other operating charges	(0.60)%	(0.56)%
<b>Income from investment</b>		
Other operating income	0.73%	0.26%
Operating profit	10.31%	8.93%
Finance cost	(2.06)%	(1.51)%
Profit before taxation	8.24%	7.42%
Provision for Income tax	(0.82)%	(1.18)%
Profit after taxation	7.42%	6.24%



## **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 Liberty 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 June 30, 2008.

**HYDER BHIMJI & CO.**  
Chartered Accountants

**RAUF AYOORB & CO.**  
Chartered Accountants



## **Auditor's report to the members**

We have audited the annexed balance sheet of LIBERTY MILLS LIMITED 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, where necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal controls, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Company Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit. The Financial statements of the Company for the year ended June 30, 2007 were audited by Gardezi & Co. Chartered Accountants & Rauf Ayoob & Co. Chartered Accountants who have made an unqualified opinion in their audit report dated September 28, 2007.

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 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, investment 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 standard as applicable in Pakistan, and, give the information required by the companies ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that ordinance.

**HYDER BHIMJI & CO.**  
Chartered Accountants

**RAUF AYOOB & CO.**  
Chartered Accountants



## **Statement of Compliance with the Code of Corporate Governance For the year ended June 30, 2008**

This statement is being presented to comply with the Code of Corporate Governance as contained in the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange 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:

01. The company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes four non-executive directors and five executive directors including Chief Executive officer (CEO).
02. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this Company.
03. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFC or, being a member of stock exchange, has been declared as defaulter by that Stock Exchange.
04. No casual vacancy occurred in the Board during the year under review.
05. The Company has prepared a "statement of ethics and business practices", which has been signed by all the directors and employees of the company.
06. 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.
07. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and condition of employment of the CEO and other executive directors, have been taken by the Board.
08. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
09. The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities, and briefed them regarding amendments in the Companies Ordinance / Corporate Laws.
10. The Board has approved appointment of CFO, including his remuneration and terms and conditions of employment, as determined by the CEO.
11. The Director's Report for this year has been prepared in compliance with the requirements of the





Code and it fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval by the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors including the Chairman of the committee.
16. The meetings of the committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function manned by suitable qualified and experienced personnel who are conversant with the policies and procedures of the Company. They are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that:
  - I. They have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan.
  - II. That they are or any partner of the firm, their spouses and minor children do not hold shares of the Company.
  - III. That the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the 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 regards.
20. We confirm that all material principles contained in the Code have been complied with.

**Ashraf S. Mukaty**  
Chief Executive



## Balance Sheet as at 30th June, 2008

<u>EQUITY AND LIABILITIES</u>	NOTE	<u>2008 RUPEES</u>	<u>2007 RUPEES</u>
<b>SHARE CAPITAL AND RESERVES</b>			
<b>SHARE CAPITAL</b>			
Authorised Capital: 40,000,000 (2007: 40,000,000) ordinary shares of Rs. 10 each		400,000,000	400,000,000
Issued, subscribed and paid up capital	4	226,101,390	226,101,390
General reserve - revenue		870,000,002	570,000,002
Unappropriated profit		376,557,429	380,067,196
		1,472,658,821	1,176,168,588
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	5	140,139,701	122,433,167
Loans from related parties	6	29,814,330	—
Deferred liabilities	7	74,801,823	72,149,878
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	519,148,986	568,404,553
Accrued mark-up	9	22,142,862	11,568,617
Short term borrowings	10	1,037,916,872	776,462,429
Current portion of long term financing and loans from related parties	11	25,127,966	249,884,888
Provision for income tax net of payment		390,289	1,373,544
		1,604,726,975	1,607,694,031
<b>Contingencies &amp; commitments</b>	12	—	—
		3,322,141,650	2,978,445,664

Note: The annexed notes 1 to 47 form an integral part of these financial statements.



# LIBERTY MILLS LIMITED

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<u>ASSETS</u>	NOTE	2008 RUPEES	2007 RUPEES
<b>NON CURRENT ASSETS</b>			
Fixed Assets			
Property, plant & equipment	13	1,300,242,091	1,269,866,081
Investment property	14	1,509,475	1,670,589
		1,301,751,566	1,271,536,670
Long term investment	15	1,505,430	1,287,438
Long term loans and advances	16	23,888,445	20,405,075
Long term deposits		2,822,863	2,828,605
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	17	113,430,769	94,640,544
Stock-in-trade	18	748,537,715	596,348,301
Trade debts	19	856,008,990	701,320,877
Loans and advances	20	33,363,595	30,876,145
Deposits and prepayments	21	1,558,730	581,214
Other receivables	22	56,541,181	64,470,563
Tax refunds due from government	23	36,604,407	34,874,981
Financial assets at fair value through profit & loss	24	8,339,702	20,042,937
Cash and bank balances	25	137,788,257	139,232,314
		1,992,173,346	1,682,387,876
		<u>3,322,141,650</u>	<u>2,978,445,664</u>

**Ashraf S. Mukaty**  
Chief Executive

**Asif Younus Bawany**  
Director



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

	NOTE	2008 RUPEES	2007 RUPEES
Sales & services	26	4,602,042,882	4,428,139,827
Cost of sales and services	27	<u>(3,839,072,137)</u>	<u>(3,790,275,715)</u>
Gross profit		762,970,745	637,864,112
Administrative expenses	28	<u>(131,397,704)</u>	<u>(126,071,413)</u>
Distribution cost	29	<u>(163,636,721)</u>	<u>(103,379,902)</u>
Other operating charges	30	<u>(27,393,060)</u>	<u>(24,733,809)</u>
		<u>(322,427,485)</u>	<u>(254,185,124)</u>
		440,543,260	383,678,988
Income from investment property	31	198,886	119,477
Other operating income	32	33,536,561	11,662,650
Operating profit		<u>474,278,707</u>	<u>395,461,116</u>
Finance cost	33	<u>(94,892,509)</u>	<u>(66,854,797)</u>
Profit before taxation		<u>379,386,198</u>	<u>328,606,319</u>
Provision for Income Tax	34	<u>(37,675,687)</u>	<u>(52,309,458)</u>
Profit after taxation		341,710,511	276,296,860
Earning per share - basic & diluted	35	<u>15.11</u>	<u>12.22</u>

The annexed notes 1 to 47 form an integral part of these financial statements.

**Ashraf S. Mukaty**  
Chief Executive

**Asif Younus Bawany**  
Director



## Cash Flow Statement for the year ended 30th June, 2008

	NOTE	2008 RUPEES	2007 RUPEES
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		379,386,198	328,606,319
<b>Adjustments for non cash charges and other items</b>			
Depreciation		109,969,770	108,316,406
Provision for staff retirements benefit (net)		15,001,945	14,949,774
Provision for slow moving and obsolete stores and spares		4,724,000	—
Gain on disposal of fixed assets		(185,977)	(1,948,964)
Finance cost		94,892,509	66,854,797
		<b>224,402,247</b>	<b>188,172,013</b>
		<b>603,788,445</b>	<b>516,778,332</b>
Working capital changes	36	(113,946,452)	(45,504,255)
(Increase) in long term loans and advances		(3,483,370)	(1,059,515)
Long term deposit		5,742	(56,360)
Financial cost paid		(84,318,262)	(71,408,738)
Taxes paid		(52,738,368)	(53,312,935)
Taxes refund received		—	2,316,353
		<b>349,307,735</b>	<b>347,752,882</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditures		(147,114,451)	(100,467,134)
Proceeds from disposal of fixed assets		7,115,762	3,401,500
Net cash out flow from investing activities		(139,998,691)	(97,065,634)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceed / (Payment) of long term finance		18,692,117	(4,192,250)
(Payment) of loan from related parties		(195,928,175)	(200,257,495)
Dividend paid		(45,220,278)	(45,220,278)
Net cash (out flow) from financing activities		(222,456,336)	(249,670,023)
Net (Decrease) / increase in cash and cash equivalents		(13,147,292)	1,017,225
Cash and cash equivalents at the beginning of the year		159,275,251	158,258,026
Cash and cash equivalents at the end of the year	37	<b>146,127,959</b>	<b>159,275,251</b>

The annexed notes 1 to 47 form an integral part of these Financial statements.

**Ashraf S. Mukaty**  
Chief Executive

**Asif Younus Bawany**  
Director



### Statement of Changes in Equity for the year ended 30th June, 2008

	Share Capital	General Reserve- Revenue	Un-Appropriated Profit	TOTAL
Balance as at 30th June, 2006	226,101,390	450,000,002	268,990,614	945,092,006
Final dividend for the year ended 30th June, 2006:				
Cash @ 20% Rs. 2.00 per share			(45,220,278)	(45,220,278)
Transfer to revenue reserve		120,000,000	(120,000,000)	—
Profit for the year ended 30th June, 2007			276,296,860	276,296,860
<b>Balance as on 30th June, 2007</b>	<b>226,101,390</b>	<b>570,000,002</b>	<b>380,067,196</b>	<b>1,176,168,588</b>
Final dividend for the year ended 30th June, 2007:				
Cash @ 20% Rs. 2.00 per share			(45,220,278)	(45,220,278)
Transfer to revenue reserve		300,000,000	(300,000,000)	—
Profit for the year ended 30th June, 2008			341,710,511	341,710,511
<b>Balance as at June 30, 2008</b>	<b>226,101,390</b>	<b>870,000,002</b>	<b>376,557,429</b>	<b>1,472,658,821</b>

The annexed notes 1 to 47 form an integral part of these Financial statements.

**Ashraf S. Mukaty**  
Chief Executive

**Asif Younus Bawany**  
Director



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

### **1. COMPANY AND ITS BUSINESS**

The Company was incorporated in Pakistan on February 22, 1965 as a private limited company and was converted into a public limited company on September 12, 1969. Its shares are quoted in the Karachi stock exchange. The principal activity of the company is manufacturing and processing of all kinds of fabrics and textile made-up and its registered office is situated at A/51-A, S.I.T.E, Karachi.75700.

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case of requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

#### **2.2 Accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimate and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

- a) Property, plant and equipment with respect to estimated useful life and related depreciation charge and impairment.
- b) Provision for obsolescence and slow moving items in stores and spares with respect to parameter set out by management.
- c) Provision for income tax with respect to estimations of income tax based on income tax law and appellate decision.
- d) Staff retirements benefit with respect to actuarial valuation
- e) Deferred taxation regarding estimation of share of local and export business.
- f) Stock in trade with respect to estimation of net realizable value.



### 2.3 **Accounting Standards not yet effective**

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods on or after the date specified hereunder which are either not relevant to Company's operation or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures:

		<b>Effective Date for Accounting period beginning on or after</b>
IFRS - 3	Business Combinations	July 01, 2008
IFRS - 7	Financial Instruments - Disclosures	April 28, 2008
IFRS - 8	Operating Segments	July 01, 2008
IAS - 1	Presentation of financial statements (Revised)	January 01, 2009
IAS - 23	Borrowing Cost (Revised)	January 01, 2009
IAS - 27	Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IAS - 29	Financial Reporting in Hyper inflationary Economics	January 01, 2009
IFRIC - 4	Determining whether an arrangement contains a lease	July 01, 2009
IFRIC - 12	Services Concession Arrangements	January 01, 2008
IFRIC - 13	Customer Loyalty Programmes	July 01, 2008
IFRIC - 14	The Limit on Defined Benefit Asset, Minimum Funding Requirement and their Interactions	January 01, 2008
IFRIC - 15	Agreement for the construction of Real Estate	January 01, 2008
IFRIC - 16	Hedges of a Net Investment in a foreign Operation	October 01, 2008





### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 Accounting Convention**

These financial statements have been prepared under the historical cost convention except for certain financial instruments that have been accounted for on the basis of their fair values, retirements benefit obligation determines on actuarial valuation and valuation of stock-in-trade when valued at net realizable value.

#### **3.2 Taxation**

##### **Current**

Provision for current taxation is computed in accordance with the provisions of Income Tax Laws. The charge for current income tax is recorded after adjustment, if any to the provisions for tax made prior year including those arising from assessment and amendments in assessments during the year in such years.

##### **Deferred**

Deferred tax is recognized using the balance sheet liability method, on all temporary differences arising at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for the financial reporting purposes.

Deferred tax liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which the assets may be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow or part of the deferred tax asset to be recognized. Unrecognized deferred tax asset are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

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

#### **3.3 Staff retirements benefit**

##### **Defined benefit plan**

The Company operates an unfunded gratuity scheme covering all permanent employees of the Company who have attained the minimum qualifying period, gratuity is based on the last drawn salary. Provision are made annually to cover the obligation under the scheme. The latest Actuarial valuation was carried out as at 30 June 2007 for two years, using the Projected Unit Credit Method assuming a discount rate of 10 % per annum and expected rate of increase in salary @ 9% per annum. Actuarial gains and losses are recognized as income or expenses when the net cumulative unrecognized actuarial gains and losses for the plan at the end of previous reporting exceed 10% of the higher of present value of defined benefit obligation. The gains or losses in excess of amount determined as above said criteria are recognized over the expected remaining working lives of the employees participating in the plan.

**3.4 Foreign currency translation**

Transactions in foreign currencies are translated into Pak rupees at the exchange rates prevailing on the date of transactions. Assets and Liabilities in foreign currencies are translated into Pak rupees at the rates of exchange which approximate those ruling on the balance sheet date. Exchange differences are taken in the profit & loss account.

**3.5 Property, plant and equipment**

These are stated at cost less accumulated depreciation except for capital work-in-progress is stated at cost.

Depreciation on Property, Plant and Equipment is charged to income applying the reducing balance method, at the rates specified in note no.13.1 whereby the depreciable amount of an asset is written off over its estimated useful life. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from them.

The assets residual value and useful life are reviewed at each financial year end and adjusted if the impact on depreciation amount is significant. The company estimate of residual value of Property, plant and equipment as at 30/06/2008 doesn't require any such adjustment.

Repair and maintenance and normal repairs including minor alteration are charged to income as and when incurred. Renewals and improvements are capitalized and the asset so replaced , if any are retired. Gain or loss on disposal of property plant and equipment if any included in the income currently.

Depreciation on additions during the year is charged from the month when the assets is available for use. Similarly the depreciation on deletion is charged upto the month preceding the month when the asset is derecognized.

**3.6 Investment property**

Investment property represents the company owned building which is rented out to its associated undertaking M/s. Liberty Energy (Pvt) Limited.

The company adopted the cost model instead of fair value model as described in IAS 40 'Investment Property' since the building rented out is transferred from the operating assets at the historical cost, The company's management is of the view that the cost of the property approximate its fair value.

The building is stated at cost less accumulated depreciation, the depreciation method reflect the pattern in which the asset's economic benefits are consumed by the enterprise. Major renewals and improvements are capitalized and assets so replaced, if any are retired. Profit or Loss on disposal of investment property is included in income currently whereas maintenance and normal repairs are charged to income as and when incurred.

**3.7 Long term investments**

Held - to - maturity

These are investments with fixed or determinable payments and fixed maturity with the Company having positive intent and ability to hold to maturity. These are stated at cost.



**3.8 Stores, spares and loose tools**

These are valued at cost applying first-in-first out (FIFO) basis, except items in transit if any are stated at cost incurred to date. Provision for obsolete items, if any, is based on their conditions as at balance sheet date depending upon the management's judgment.

**3.9 Stock-in-trade**

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

- a) Finished Stock and Raw Materials at cost on FIFO basis.
- b) Material in transit at cost accumulated upto the balance sheet date.
- c) Work-in-process at weighted average manufacturing cost.

Weighted average cost in relation to work-in-process signifies weighted average manufacturing cost include a portion of related direct overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make sale.

**3.10 Financial Instruments**

**a) Financial assets and financial liabilities**

Financial assets and liabilities includes investment, loans, deposits, trade debts, cash and cash equivalents, short term borrowings, trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

All financial assets and financial liabilities are recognized at the time when Company becomes a party to the contractual provisions of the instrument and are derecognized in case of assets, when the contractual rights under the instrument are realized, expire or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

**b) Trade debts**

Trade debts originated by the Company are recognized and carried at original invoice amount. Debts considered irrecoverable, are written off and provision are made for debts considered doubtful, if any.

**c) Financial assets at fair value through profit and loss**

Finance assets are held for trading are classified in this category. These are stated at fair value which is reassessed at each reporting date and changes in carrying values are included in profit and loss account.

**d) Provision**

Provisions are recognized when the Company has a present obligation legal or constructive as a result of past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

**e) Offsetting**

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Company intends either to settle on net basis, or to realize the assets and to settle the liabilities simultaneously.

**f) Cash and cash equivalents**

Cash and cash equivalents consist of Financial assets at fair value through profit & loss, Cash in hand and balances with banks and are carried on the balance sheet at fair value.

**3.11 Borrowings 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 are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

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

**3.12 Related party transaction**

All transaction between the Company and related party are recorded at arm's length prices determined in accordance with Comparable Uncontrolled Price Method.

**3.13 Impairment of Assets**

An assessment is made at each financial year end to determine whether there is an evidence that a financial asset or group of financial asset may be impaired, if such evidence exists, the estimated recoverable amount of that asset is determined and impairment loss is recognized for the difference between the recoverable amount and the carrying amount in income currently.

**3.14 Revenue Recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

- Sales are recorded on dispatch of goods to the customers.
- Income from process services is recorded when earned.
- Income from rental is recorded on accrual basis.
- Interest and bank profit income is recorded on accrual basis.
- Interest on deposit / certificates is recognized on accrual basis.

**3.15 Research and Development Support**

Research & Development Support contributed by the government is recognized only when there is reasonable assurance that the company will comply with all the condition attaching to it and the same will be received.

**3.16 Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.



# LIBERTY MILLS LIMITED

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

2008 No. of Shares of Rs. 10 each	2007 No. of Shares of Rs. 10 each		2008 RUPEES	2007 RUPEES
12,732,092	12,732,092	Ordinary Shares fully paid in cash	127,320,920	127,320,920
9,878,047	9,878,047	Ordinary Shares fully paid issued as Bonus Shares	98,780,470	98,780,470
<u>22,610,139</u>	<u>22,610,139</u>		<u>226,101,390</u>	<u>226,101,390</u>

#### 5. LONG TERM FINANCING - SECURED FROM BANKING COMPANIES

Habib metropolitan bank limited	Note 5.1	84,841,582	101,581,583
Standard chartered bank (Pakistan) limited	Note 5.2	37,425,835	44,993,967
Allied bank limited	Note 5.3	43,000,250	—
		<u>165,267,667</u>	<u>146,575,550</u>
Current portion shown under current liabilities		25,127,966	24,142,383
		<u>140,139,701</u>	<u>122,433,167</u>

##### 5.1 Interest

It carries interest at the rate of 6.5% per annum chargeable and payable on quarterly basis.

##### **Repayment**

The finance is repayable in 12 equal half yearly installments commenced from 18th April 2007.

##### **Security**

The finance is secured by 1st charge on the specified machinery imported through lender under the scheme of Long Term Financing for Export Oriented Project and registered charge over stock / receivables

##### 5.2 Interest

It carries interest at the rate of 7% per annum chargeable and payable on quarterly basis.

##### **Repayment**

The finance is repayable in 12 equal half yearly installments commenced from 13th June 2007.

##### **Security**

The finance is secured by 1st charge on the specified machinery imported through lender under the scheme of Long Term Financing for Export Oriented Project and registered charge over stock / receivables

##### 5.3 Interest

It carries interest at the rate of 8.7% per annum chargeable and payable on quarterly basis.

##### **Repayment**

The finance is repayable in 32 equal quarterly installments commencing from 15th May 2010.

##### **Security**

The finance is secured by 1st charge on the specified machinery imported through lender under the scheme of Long Term Financing for Export Oriented Project and registered charge over stock / receivables

# LIBERTY MILLS LIMITED



	<b>2008 RUPEES</b>	<b>2007 RUPEES</b>
<b>6. <u>LOANS FROM RELATED PARTIES - UNSECURED</u></b>		
From directors	29,814,330	225,742,505
Current portion shown under current liabilities	—	(225,742,505)
	29,814,330	—
The above loan is mark-up free		
The terms of repayment of loan are yet to be finalized.		
<b>7. <u>DEFERRED LIABILITIES</u></b>		
Deferred tax	13,195,000	25,545,000
Staff retirements benefit	61,606,823	46,604,878
	74,801,823	72,149,878
<b>7.1 <u>DEFERRED TAX:</u></b>		
Due to accelerated tax depreciation allowance	17,825,000	26,945,000
Due to timing difference in payments of staff retirements benefit	(4,300,000)	(1,400,000)
Due to timing difference of Provision for slow moving and obsolete item	(330,000)	—
	13,195,000	25,545,000
<b>7.2 <u>Staff retirements benefit:</u></b>		
To comply with the requirements of IAS-19 "Employee Benefits" as adopted by the Company with effect from 1st July 2002 provision is made as per actuarial valuation of the scheme, the latest actuarial valuation was carried out as on 30th June 2007. The valuation uses the Projected Unit Credit Method. The details are as under:		
<b>Basic Actuarial assumption adopted:</b>		
Expected rate of increase in salary in future periods	9%	9%
Discount rate	10%	10%
Average expected remaining working life time of employees	7 years	7 years
<b>Movement in the present value during the year</b>		
Present value of obligation at the beginning	55,431,726	33,661,155
Service cost	12,085,698	14,986,998
Interest cost	5,543,173	3,029,504
Benefits paid	(3,096,022)	(3,196,400)
Actuarial loss on present value of defined benefit obligation	—	6,950,469
<b>Present value of defined obligation at the end</b>	<b>69,964,575</b>	<b>55,431,726</b>



# LIBERTY MILLS LIMITED

	<u>2008</u> <u>RUPEES</u>	<u>2007</u> <u>RUPEES</u>
<b>Movement during the year in the net liability recognized in the financial statements is as under:</b>		
Opening balance	46,604,878	31,655,104
Charge for the year	18,097,967	18,146,174
Paid during the year	(3,096,022)	(3,196,400)
<b>Closing balance</b>	<b>61,606,823</b>	<b>46,604,878</b>
<b>Reconciliation of obligation of staff retirements benefit:</b>		
Present value of obligation	69,964,575	55,431,726
Net actuarial loss to be recognized in later periods	(8,357,752)	(8,826,848)
	<u>61,606,823</u>	<u>46,604,878</u>
<b>Expenses recognized in the profit &amp; loss account is:</b>		
Current service cost	12,085,698	14,986,998
Interest cost	5,543,173	3,029,504
Actuarial loss	469,096	—
Transitional obligation charged during the year	—	129,672
	<u>18,097,967</u>	<u>18,146,174</u>
<b>8. <u>TRADE AND OTHER PAYABLES</u></b>		
Creditors	421,669,461	456,913,381
Accrued liabilities	40,597,979	51,491,313
Advances from customers	3,508,329	16,879,331
Workers' profit participation fund	43,182,735	33,902,871
Workers' welfare fund	7,054,097	7,066,803
Unclaimed dividend & bonus fractions	585,615	538,462
Other liabilities	2,550,770	1,612,392
	<u>519,148,986</u>	<u>568,404,553</u>
<b>8.1 <u>Workers' Profit Participation Fund:</u></b>		
Balance at the beginning of the year	33,902,871	26,587,144
Interest on last year's balance	5,176,765	3,419,597
	<u>39,079,636</u>	<u>30,006,741</u>
Paid to trust	(16,235,864)	(13,770,877)
	<u>22,843,772</u>	<u>16,235,864</u>
Allocation for the year	20,338,963	17,667,006
Balance at the end of the year	<u>43,182,735</u>	<u>33,902,871</u>
Interest on the W.P.P.F. is provided @ 16.50% per annum (2007: 15.00%).		
<b>8.2 <u>Other liabilities</u></b>		
Employees vehicle purchase scheme	1,503,362	1,498,623
Employees E.O.B.I. & Income tax payable	1,047,408	113,769
	<u>2,550,770</u>	<u>1,612,392</u>

# LIBERTY MILLS LIMITED



<b>9. ACCRUED MARK-UP</b>	<b>2008 RUPEES</b>	<b>2007 RUPEES</b>
Mark-up on long term financing	2,858,415	2,318,069
Mark-up on short term borrowings	19,284,447	9,250,548
	22,142,862	11,568,617
<b>10. SHORT TERM BORROWINGS - SECURED</b>		
Utilised under markup arrangement		
From banking companies		
Export refinance	1,026,000,000	751,000,000
Running finance	11,916,872	25,462,429
	1,037,916,872	776,462,429

BANK	Rate of mark-up range		Facility limit in million		Renewal
	2008	2007	2008	2007	
<b>Export refinance</b>	paise per 1000 per rupees/day				
Habib Metropolitan Bank Ltd.	21	19	* 266	* 266	31-12-2008
Soneri Bank Limited	21	19	* 200	* 200	31-12-2008
Standard Chartered Bank (Pak) Ltd.	21	19	150	150	31-12-2008
Meezan Bank Limited	19	19	135	200	31-10-2008
Allied Bank Limited	19	—	275	—	31-10-2008
<b>Running finance</b>					
Habib Metropolitan Bank Ltd.	43	33	10	10	31-12-2008
Standard Chartered Bank (Pak) Ltd.	44	34	50	50	31-12-2008

\* Combine limit interchangeable between export refinance and foreign currency export refinance.

\* In the current financial statements there is no foreign currency export refinance.

### **Security**

The above finances are secured against first pari passu hypothecation charge on export bills, stocks, trade receivables and personal guarantee of two Directors.

### **11. CURRENT PORTION OF LONG TERM FINANCING AND LOANS FROM RELATED PARTIES**

Current portion of long term financing	25,127,966	24,142,383
Current portion of loans from related parties	—	225,742,505
	25,127,966	249,884,888





**12. CONTINGENCIES & COMMITMENTS**

For Investment in related party namely Liberty Power Tech Limited - upto	3,000,000,000	—
For outstanding L/C in respect of raw material & spares etc.	17,073,830	15,248,617
For capital expenditures	—	2,202,225
Bank guarantee issued: to Sui southern gas company ltd.	34,484,000	34,484,000
: to Defence purchases, wah cantt.	1,076,400	1,076,400

**13. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment	Note 13.1	1,266,517,215	1,058,370,225
Capital work in progress	Note 13.2	33,724,876	211,495,856
		<u>1,300,242,091</u>	<u>1,269,866,081</u>

# LIBERTY MILLS LIMITED



### 13.1 PROPERTY, PLANT AND EQUIPMENT

P A R T I C U L A R S	C O S T			D E P R E C I A T I O N			Book value as on 30-06-08	Rate %		
	As at 01.07.07	Additions during the year	Disposal during the year	As at 30.06.08	Upto 01.07.07	For the year			on disposal/ during the year	Upto 30.06.08
Lease Hold Land	39,572,334	—	—	39,572,334	3,702,679	357,354	—	4,060,033	35,512,301	1
Factory Building on lease hold land	217,548,975	171,060,106	28,186,023	360,423,058	108,943,200	14,487,767	22,873,054	100,557,913	259,865,145	10
Non Factory/Building on lease hold land	25,040,964	26,214,417	—	51,255,381	8,723,759	1,128,370	—	9,852,129	41,403,252	5
Plant & Machinery	1,565,358,878	117,860,080	2,402,302	1,680,816,656	734,176,199	82,960,709	1,265,980	815,870,928	864,945,728	10
Factory Equipments	50,523,203	4,693,898	—	55,217,101	31,446,503	2,064,604	—	33,511,107	21,705,994	10
Office Equipments	10,072,321	263,356	—	10,335,677	6,326,133	468,345	—	6,794,478	3,541,199	10
Computers / Printers	10,796,994	203,645	—	11,000,639	8,213,945	711,771	—	8,925,716	2,074,923	30
Furniture & Fixtures	9,341,698	936,214	222,866	10,055,046	4,844,116	508,675	83,616	5,269,175	4,785,871	10
Vehicles	81,328,443	3,653,715	2,237,825	82,744,333	44,837,051	7,121,061	1,896,581	50,061,531	32,682,802	20
<b>Total Rupees: June 2008</b>	<b>2,009,583,810</b>	<b>324,885,431</b>	<b>33,049,016</b>	<b>2,301,420,225</b>	<b>951,213,585</b>	<b>109,808,656</b>	<b>26,119,231</b>	<b>1,034,903,010</b>	<b>1,266,517,215</b>	

**2006-07**

P A R T I C U L A R S	C O S T			D E P R E C I A T I O N			Book value as on 30-06-08	Rate %		
	As at 01.07.07	Additions during the year	Disposal during the year	As at 30.06.07	Upto 01.07.07	For the year			on disposal/ during the year	Upto 30.06.07
Lease Hold Land	39,572,334	—	—	39,572,334	3,341,726	360,953	—	3,702,679	35,869,655	1
Factory Building on lease hold land	209,173,490	8,375,485	—	217,548,975	98,002,845	10,940,355	—	108,943,200	108,605,775	10
Non Factory/Building on lease hold land	25,027,854	13,110	—	25,040,964	7,882,084	841,675	—	8,723,759	16,317,205	5
Plant & Machinery	1,442,746,398	122,612,480	—	1,565,358,878	649,604,043	84,572,156	—	734,176,199	831,182,679	10
Factory Equipments	48,376,396	2,146,807	—	50,523,203	29,447,339	1,969,164	—	31,446,503	19,076,700	10
Office Equipments	9,574,983	497,338	—	10,072,321	5,896,916	429,217	—	6,326,133	3,746,188	10
Computers / Printers	10,610,169	186,825	—	10,796,994	7,271,862	942,083	—	8,213,945	2,583,049	30
Furniture & Fixtures	8,953,038	388,660	—	9,341,698	4,385,295	458,821	—	4,844,116	4,497,582	10
Vehicles	82,959,283	7,280,640	8,911,480	81,328,443	44,674,536	7,621,459	7,458,944	44,837,051	36,491,392	20
<b>Total Rupees: June 2007</b>	<b>1,876,993,945</b>	<b>141,501,345</b>	<b>8,911,480</b>	<b>2,009,583,810</b>	<b>850,536,646</b>	<b>108,135,883</b>	<b>7,458,944</b>	<b>951,213,585</b>	<b>1,058,370,225</b>	

**2008**                      **2007**

**RUPEES**                      **RUPEES**

Note: Depreciation charge has been allocated to

Cost of sales	99,870,434	97,842,628
Administrative expenses	9,938,222	10,293,255
	<b>109,808,656</b>	<b>108,135,883</b>



**13.2 Capital work in progress:**

Description	Factory/Non factory Building on Lease Hold Land	Plant & Machinery	Other Assets	Total
Balance as at July 01, 2006	149,990,104	101,424,325	1,115,640	252,530,069
Capital expenditure incurred during the year	50,714,617	40,009,775	9,742,740	100,467,132
Transfer to operating fixed assets	(8,375,485)	(122,612,840)	(10,513,380)	(14,1501,345)
Balance as at June 30, 2007	192,329,236	18,821,620	345,000	211,495,856
Capital expenditure incurred during the year	21,000,005	116,219,901	9,405,828	146,625,734
Capitalization of borrowing cost	—	488,717	—	488,717
Transfer to operating fixed assets	(197,274,523)	(117,860,080)	(9,750,828)	(324,885,431)
Balance as at June 30, 2008	16,054,718	17,670,158	—	33,724,876

Rate of Mark-up of borrowing cost capitalized is 8.7%

# LIBERTY MILLS LIMITED



### 13.3 DETAILS OF DISPOSAL OF FIXED ASSETS

S. No.	PARTICULARS	Original Cost	Accumulated Depreciation	Written Down Value	Sales Proceeds	S O L D T O	Mode of Disposal
	<b>Factory Building</b>						
1	Building Grey Godown	6,838,172	5,795,557	1,042,615	1,042,615	EFU General Insurance Ltd. Karachi	Insurance Claim
2	Building Grey Godown	9,940,742	8,056,174	1,884,568	1,884,568	EFU General Insurance Ltd. Karachi	Insurance Claim
3	Building Grey Godown	11,407,110	9,021,323	2,385,787	2,385,787	EFU General Insurance Ltd. Karachi	Insurance Claim
	<b>Plant &amp; Machinery</b>						
4	Auto Cloth Folding Machine	521,563	463,592	57,971	57,971	EFU General Insurance Ltd. Karachi	Insurance Claim
5	Cloth Folding Machine	562,584	480,710	81,874	81,874	EFU General Insurance Ltd. Karachi	Insurance Claim
6	Inspection / Rolling Machine	604,076	146,838	457,238	457,238	EFU General Insurance Ltd. Karachi	Insurance Claim
7	Generator 250 K.V.	696,079	158,300	537,779	475,000	Mr. Aurangzaib S/o Malik Fazal Khan Frontier Colony, Karachi	Negotiation
	<b>Vehicles</b>						
8	Toyota Corolla	689,000	622,037	66,963	175,000	Mr. Rahim Khan 108, Nasir Colony, Korangi, Karachi.	Negotiation
9	Daihatsu Cuore	419,000	326,262	92,738	115,000	Mohammed Akmal - House # 21, Naymat Colony, Azizabad, Karachi.	Negotiation
10	Honda City Exi	775,000	627,932	147,068	200,000	Naryas Komal Ganwani Flat # 1, Seaview Appt. DHA, Karachi.	Negotiation
11	Items having book value of less than Rs. 50,000/-	595,691	420,505	175,185	240,710	Various	Various
	<b>JUNE 2008</b>	<b>33,049,016</b>	<b>26,119,231</b>	<b>6,929,785</b>	<b>7,115,762</b>		
	<b>JUNE 2007</b>	<b>8,911,480</b>	<b>7,458,944</b>	<b>1,452,536</b>	<b>3,401,500</b>		



	<b>2008 RUPEES</b>	<b>2007 RUPEES</b>
<b>14. INVESTMENT PROPERTY</b>		
<b>COST</b>		
Opening balance	3,454,823	3,454,823
Addition during the year	—	—
Closing balance	3,454,823	3,454,823
<b>DEPRECIATION</b>		
Opening balance	1,784,234	1,603,711
Provided during the year	161,114	180,523
Closing balance	1,945,348	1,784,234
Closing written down value	1,509,475	1,670,589
<b>15. LONG TERM INVESTMENT</b>		
Held to maturity	500,000	500,000
Defence saving certificates - at cost	1,005,430	787,438
add: Accrued profit thereon	1,505,430	1,287,438
<b>15.1</b> The above investment is for 10 years maturing on 22 <sup>nd</sup> May, 2010 with accumulated average yield of 24.38% (2007: 21.86%). The certificates are pledged with the bank for issuance of guarantee.		
<b>16. LONG TERM LOANS &amp; ADVANCES - UNSECURED (CONSIDERED GOOD)</b>		
Due from executives	—	20,000
Less: Current portion shown under current assets	—	20,000
	—	—
Due from employees	36,143,733	32,660,363
Less: Current portion shown under current assets	12,255,288	12,255,288
	23,888,445	20,405,075
Outstanding for periods		
- Exceeding three years	—	—
- After one year within three year	23,888,445	20,405,075
	23,888,445	20,405,075
<b>Reconciliation of the carrying amount of loans to executives:</b>		
Opening balance at the beginning of the year	20,000	140,000
Repayments	(20,000)	(120,000)
Balance at the end of the year	—	20,000
<b>16.1</b> Loans to executives and employees are given for purchase of motor cars and motorcycles with out any interest in accordance with the Company's policy and are recoverable over a period of three years.		

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	<b>2008</b>	<b>2007</b>
	<b><u>RUPEES</u></b>	<b><u>RUPEES</u></b>
<b>17. <u>STORES, SPARES AND LOOSE TOOLS</u></b>		
Stores	32,872,205	33,990,511
Spare parts	85,224,114	60,592,833
Loose tools	58,450	57,200
	118,154,769	94,640,544
Less: Provision for slow moving and obsolete items	(4,724,000)	—
	113,430,769	94,640,544
<b>18. <u>STOCK-IN-TRADE</u></b>		
Raw materials	567,666,493	359,274,749
Work-in-process	84,532,970	110,020,373
Finished goods	95,012,674	126,631,556
Packing materials	1,325,578	421,623
	748,537,715	596,348,301
<b>19. <u>TRADE DEBTS - CONSIDERED GOOD</u></b>		
Export bills under collection (secured against export letter of credit)	645,731,899	526,795,841
Others-(unsecured)	210,277,091	174,525,036
	856,008,990	701,320,877
<b>20. <u>LOANS AND ADVANCES - UNSECURED (CONSIDERED GOOD)</u></b>		
Current portion of long term loans to:		
Executives	—	20,000
Employees	12,255,288	12,255,288
	12,255,288	12,275,288
Advances		
Against Purchases & Services	12,843,047	12,709,730
For Expenses	8,265,260	5,891,127
	33,363,595	30,876,145
<b>21. <u>DEPOSITS AND PREPAYMENTS</u></b>		
Security deposits	201,000	70,000
Prepayments	1,357,730	511,214
	1,558,730	581,214
<b>22. <u>OTHER RECEIVABLES</u></b>		
Duty drawback receivable	56,257,474	64,220,563
Others	283,707	250,000
	56,541,181	64,470,563



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	<u>2008</u> <u>RUPEES</u>	<u>2007</u> <u>RUPEES</u>
<b>23. TAX REFUNDS DUE FROM GOVERNMENT</b>		
Income tax	—	4,378,508
Sales tax	36,604,407	30,496,473
	<u>36,604,407</u>	<u>34,874,981</u>
<b>24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT &amp; LOSS</b>		
Held for trading		
Meezan islamic income fund (100846.06 units)	5,179,454	20,042,937
Arif habib pak income fund (61411.73 units)	3,160,248	—
	<u>8,339,702</u>	<u>20,042,937</u>
The rate of units are variable and determined on Net Asset value of fund		
<b>25. CASH AND BANK BALANCES</b>		
Cash in hand	2,493,656	2,409,020
Balance with banks in current accounts	70,479,559	35,581,238
in multiplier accounts	Note 25.1 64,815,042	101,242,056
	<u>137,788,257</u>	<u>139,232,314</u>
25.1 The profit rate on multiplier accounts are 7% (2007: 7%)		
<b>26. SALES AND SERVICES</b>		
Export sales	3,655,615,180	3,413,653,888
Local sales	466,403,004	562,732,889
Waste sales	5,561,304	4,139,813
	471,964,308	566,872,702
Less: Sales tax	(85,109)	(48,293)
	<u>471,879,199</u>	<u>566,824,409</u>
<b>SERVICES:</b>		
Cloth processing printing & dyeing	474,548,503	447,661,530
	<u>4,602,042,882</u>	<u>4,428,139,827</u>

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		<u>2008</u> <u>RUPEES</u>	<u>2007</u> <u>RUPEES</u>
<b>27. COST OF SALES &amp; SERVICES</b>			
Raw material consumed	Note 27.1	2,933,240,301	2,990,224,375
Stores, spares and loose tools consumed		91,093,229	87,934,974
Salaries and wages including bonus, gratuity and expenses on staff welfare	Note 27.2	184,107,872	192,361,080
Design, stitching, weaving, raising & mending charges		135,114,335	97,895,239
Power, water and gas		311,341,249	281,659,597
Repairs & maintenance		23,735,219	19,573,425
Packing charges		13,049,318	10,762,346
Provision for slow moving and obsolete stores and spares		4,724,000	—
Rent, rates & taxes		3,704,951	593,892
Insurance		3,912,150	3,726,390
Research & development expenses	Note 27.3	3,147,891	1,094,661
Depreciation		99,870,434	97,842,628
Less: Duty drawback		(25,075,097)	(22,333,874)
<b>COST OF PRODUCTION</b>		<u>3,781,965,852</u>	<u>3,761,334,733</u>
Work-in-process	- Opening stock	110,020,373	191,782,998
	- Closing stock	(84,532,970)	(110,020,373)
		25,487,403	81,762,625
<b>COST OF GOODS MANUFACTURED</b>		<u>3,807,453,255</u>	<u>3,843,097,358</u>
Finished goods	- Opening stock	126,631,556	73,809,913
	- Closing stock	(95,012,674)	(126,631,556)
		31,618,882	(52,821,643)
		<u>3,839,072,137</u>	<u>3,790,275,715</u>

### 27.1 RAW MATERIAL CONSUMED:

P A R T I C U L A R S	Raw Materials	Packing Materials	Total 2008	Total 2007
	Rs.	Rs.	Rs.	Rs.
Opening Stock	359,274,749	421,623	359,696,372	292,681,735
Add: Purchases	3,055,397,890	87,138,110	3,142,536,000	3,057,239,012
	3,414,672,639	87,559,733	3,502,232,372	3,349,920,747
Less: Closing Stock	567,666,493	1,325,578	568,992,071	359,696,372
<b>Consumed</b>	<b>2,847,006,146</b>	<b>86,234,155</b>	<b>2,933,240,301</b>	<b>2,990,224,375</b>

**27.2** Salaries and wages including bonus, gratuity and expenses on staff welfare includes Rs.14,932,608/- in respect of staff retirement benefits (2007 : Rs. 15,007,517/-).





# LIBERTY MILLS LIMITED

	<u>2008</u> <u>RUPEES</u>	<u>2007</u> <u>RUPEES</u>
<b>27.3 Research and development expenses</b>		
Support on account of research and development Note 27.3.1	108,312,333	94,076,621
Less: Utilization		
Products development expenses	97,767,579	85,647,224
Professional charges	1,729,122	1,236,771
Participation in exhibition	11,963,523	8,287,287
	<u>111,460,224</u>	<u>95,171,282</u>
	<u>(3,147,891)</u>	<u>(1,094,661)</u>

**27.3.1** The Research and Development Support has been granted by Ministry of Commerce, Government of Pakistan vide SRO 803 (i)/2006 dated August 04, 2006 in order to encourage and regulate the research and development in home textile sector.

## 28. ADMINISTRATIVE EXPENSES

Salaries and wages including bonus, gratuity and expenses on staff welfare	Note 28.1	74,284,676	69,146,007
Security charges		1,868,059	1,454,390
Rent, rates & taxes		1,449,847	1,524,650
Legal & professional charges		1,413,071	692,200
Insurance		380,653	451,906
Conveyance		471,496	499,078
General expenses		3,626,430	3,370,132
Postage & telegram		341,146	189,081
Telephone		3,533,875	3,478,571
Subscription		1,566,394	1,046,504
Travelling		6,313,231	6,733,142
Printing & stationary		1,671,555	1,511,909
Motor vehicle expenses		5,963,055	5,354,263
Advertisement		198,536	216,355
Donations and Corporate social responsibilities	Note 28.2	18,098,658	19,898,589
Auditors' remuneration	Note 28.3	278,800	211,380
Depreciation		9,938,222	10,293,255
		<u>131,397,704</u>	<u>126,071,413</u>

**28.1** Salaries and wages including bonus, gratuity and expenses on staff welfare includes Rs. 3,165,359/- in respect of staff retirement benefits (2007 : Rs. 3,138,657/-).

## 28.2 Donation and corporate social responsibilities

None of the Directors or their Spouses has any interest in donee's fund.

## 28.3 Auditors' Rumenration

	<b>2008</b> <b>RUPEES</b>			<b>2007</b> <b>RUPEES</b>		
	Hyder Bhimji & Co.	Rauf Ayoob & Co.	Total	Gardezi & Co.	Rauf Ayoob & Co.	Total
Audit fee annual	100,000	100,000	200,000	75,000	75,000	150,000
Half yearly review	15,000	15,000	30,000	15,000	15,000	30,000
Out of pocket expenses.	31,850	16,950	48,800	23,540	7,840	31,380
	<b>146,850</b>	<b>131,950</b>	<b>278,800</b>	<b>113,540</b>	<b>97,840</b>	<b>211,380</b>

# LIBERTY MILLS LIMITED



	<b>2008 RUPEES</b>	<b>2007 RUPEES</b>
<b>29. DISTRIBUTION COST</b>		
Export expenses	10,098,613	17,231,759
Export freight & insurance	117,321,809	78,181,144
Cartage	4,668,114	702,155
Forwarding & handling charges	31,335,548	7,184,030
Local processing commission	212,637	80,814
	163,636,721	103,379,902
<b>30. OTHER OPERATING CHARGES</b>		
Workers' profit participation fund	20,338,963	17,667,006
Workers' welfare fund	7,054,097	7,066,803
	27,393,060	24,733,809
<b>31. INCOME FROM INVESTMENT PROPERTY</b>		
Rental Income	360,000	300,000
Less: Depreciation expenses	(161,114)	(180,523)
	198,886	119,477
<b>32. OTHER OPERATING INCOME</b>		
<b>Income from financial assets</b>		
Profit on bank deposits	5,203,473	5,059,284
Dividend income	6,328,696	—
Income on investment in defence saving certificate	217,992	182,438
Gain on re-measurement of fair value of meezan islamic investment fund & arif habib pak income fund	2,600,938	42,937
	14,351,099	5,284,659
<b>Income from non financial assets</b>		
Foreign exchange gain	18,999,485	4,429,027
Gain on disposal of fixed assets	185,977	1,948,964
	19,185,462	6,377,991
	33,536,561	11,662,650
<b>33. FINANCE COST</b>		
Interest on long term financing	9,532,978	8,721,066
Mark-up on short term borrowings	64,555,604	41,888,068
Interest on workers' participation fund	5,176,765	3,419,597
Bank charges and commission	15,627,162	12,826,066
	94,892,509	66,854,797



# LIBERTY MILLS LIMITED

		<u>2008</u> <u>RUPEES</u>	<u>2007</u> <u>RUPEES</u>
<b>34. TAXATION:</b>			
Current	Note 34.1	46,823,028	52,229,851
Prior year		3,202,659	(1,195,393)
		50,025,687	51,034,458
Deferred		(12,350,000)	1,275,000
		<u>37,675,687</u>	<u>52,309,458</u>
<b>34.1 Relationship between tax expense and accounting profit</b>		%	%
Applicable Tax rate		35.00	35.00
Tax effect of expenses that are admissible for tax purpose		(1.48)	—
Tax effect of expenses that are non admissible for tax purpose		1.84	—
Tax effect of income covered under presumptive income		(23.02)	(19.08)
Effective Tax rate for the current year		<u>12.34</u>	<u>15.92</u>
<b>35. EARNING PER SHARE - BASIC &amp; DILUTED</b>			
Profit after taxation		341,710,510	276,296,860
Weighted average number of ordinary shares		22,610,139	22,610,139
Basic & diluted earning per share		15.11	12.22
There is no dilutive effect on the basic earnings per share of the Company			
<b>36. WORKING CAPITAL CHANGES</b>			
<b><u>(INCREASE)/DECREASE IN CURRENT ASSETS:</u></b>			
Stores, spare parts and loose tools		(23,514,225)	(24,505,533)
Stock-in-trade		(152,189,414)	(38,073,655)
Trade debts		(154,688,113)	(154,126,104)
Loans and advances		(2,487,450)	(2,288,348)
Deposits and prepayments		(977,516)	(169,952)
Accrued markup		(217,992)	(182,438)
Other receivables		7,929,382	(54,526,724)
<b><u>INCREASE/(DECREASE) IN CURRENT LIABILITIES</u></b>		<b>(326,145,328)</b>	<b>(273,872,754)</b>
Trade and other payables		(49,255,566)	236,063,030
Short term borrowings		261,454,443	(7,694,531)
		<u>(113,946,451)</u>	<u>(45,504,255)</u>
<b>37. CASH AND CASH EQUIVALENTS</b>			
Cash & bank balances		137,788,257	139,232,314
Financial assets at fair value through profit & loss		8,339,702	20,042,937
		<u>146,127,959</u>	<u>159,275,251</u>



### 38. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Detail of aggregate amount charged in above accounts as remuneration of Chief Executive, Directors and Executives are as under:

Particulars	2008				2007			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
<b>Managerial Remuneration</b>	—	1,950,000	2,925,000	4,875,000	—	1,500,000	2,925,000	4,425,000
<b>Perquisites and Allowances</b>								
Car for Company's and Personal Use (approximate monetary value)	678,269	609,098	425,000	1,712,367	532,444	255,012	350,000	1,137,456
	678,269	2,559,098	3,350,000	6,587,367	532,444	1,755,012	3,275,000	5,562,456
<b>Number of Persons</b>	1	4	2	8	1	3	2	8

### 39. TRANSACTIONS WITH RELATED PARTIES

The related party comprises of related group companies, Liberty Energy (Pvt.) Limited, Ashraf Enterprises & Liberty Power Tech Ltd. where directors also held directorship, directors and key management personal. Transaction with associated companies and other related companies.

Relationship	Nature of transaction	2008	2007
Associated company	Services obtained (inclusive of sales tax)	98,978,144	98,271,107
Associated company	Rent received	360,000	300,000
Associated company	Rent paid	33,000,00	—
Associated company	Reimbursement of bank charges & com.	728,359	—
Directors	Loan from directors	29,814,330	225,742,505

Transactions with key management personnel are disclosed in note no. 38. There is no transactions with key management personnel other than under their terms of employment.

The maximum aggregate amount due to an associated undertaking at the end of any month during the year was Rs9,167,309/- (2007 : Rs. 9,541,265/-).





## 41. FINANCIAL RISK MANAGEMENT, OBJECTIVE AND POLICIES

### 41.1 Capital management

The primary objective of the Company when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain and optimal capital structure.

The company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes during the year ended June 30, 2008.

During the year the Company's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2008 and 2007 were as follows:

	2008	2007
Total borrowings	1,232,998,869	1,148,780,484
Less : cash and bank balances	137,788,257	139,232,314
Net debt	1,095,210,612	1,009,548,170
Total equity	1,472,658,821	1,176,168,588
Total Capital	<u>2,567,869,433</u>	<u>2,185,716,758</u>
Gearing ratio	42.65%	46.19%

The Company finances its operations through equity, borrowings and management of working capital with a view to maintain and appropriate mix amongst various sources of finance to minimize risk.

### 41.2 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance.

Risk Management is carried out under policies and principles approved by the Board. All treasury related transactions are carried out within the parameters of these policies and principles.



**A) Market risks**

**Foreign exchange risk management**

Foreign exchange risk represents the risk that the fairvalue of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future economic transactions or receivables and payables that exist due to transaction in foreign exchange.

The Company exposed to foreign exchange risk arising from currency value fluctuations primarily with respect to the United States Dollar (USD) and Euro, currently, the Company's foreign exchange risk exposure in relation to foreign trade transaction.

**B) Price risk**

Price risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or currency rate risk), whether those changes are caused by factors specified to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

**C) Interest / markup rate risk management**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest / markup rates. The Company has short term borrowings at fixed and variable rates. Therefore the Company is not exposed to any variation of interest rate risk.

**D) Credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company manages credit risk inter alia by setting out credit limits in relation to individual customers and / or by obtaining advance against sales and / or through letter of credits. Also the company doesn't have significant exposure in relation to individual customer. Consequently the company believes that it is not exposed to any major concentration of credit risk.

**E) Liquidity risk**

Liquidity risk represent the risk where the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. At June 30, 2008, the Company has Rs. 1086 million available borrowing limit from financial institution. Unutilized borrowing facilities of Rs. 48 million and also has 135.295 million being balances at banks. Based on the above, management believes the liquidity risk to be insignificant.

**41.3 Fair value of Financial instruments**

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

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



their fair values except Long term investment which are carried at cost.

#### 42. **PLANT CAPACITY AND PRODUCTION**

##### **Dyeing, Printing & Finishing**

Production capacity for 3 shifts per day	meters	66,000,000	66,000,000
Actual production	meters	55,715,563	57,057,088

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending upon quality of fabrics and process used.

#### 43. **DIVIDEND AND APPROPRIATIONS**

Subsequent to the year ended June 30, 2008, the Board of Directors have proposed a final dividend of Rs. 1.50 per share, in their meeting held on October 07, 2008 for approval of the members at the Annual General Meeting. In addition the Board of Directors has also approved appropriation to general reserve of Rs. 299,999,998.

#### 44. **OCCURRENCE OF FIRE**

A fire occurred at one of grey fabric godown on November 19, 2007, resulting in the loss of fabrics and certain items or property plant & equipment. The fabric stocks and property were fully insured hence the Company didn't suffer any loss.

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

These Financial statements were authorized for the issue on October 07, 2008 by the Board of Directors of the company of Karachi.

#### 46. **CORRESPONDING FIGURES**

- i) Deferred tax had been shown under deferred liabilities for better presentation.
- ii) Accrued mark-up previously shown under current assets is reclassified under long term investment as accrued profit for better presentation.

#### 47. **GENERAL**

Figures have been rounded off to the nearest rupee.

**Ashraf S. Mukaty**  
Chief Executive

**Asif Younus Bawany**  
Director





## Pattern of share holding as on June 30, 2008

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
	FROM	TO	
1485	1	100	36,980
315	101	500	55,257
84	501	1000	47,552
38	1001	5000	89,462
10	5001	10000	66,285
5	10001	15000	55,429
12	15001	20000	221,732
8	20001	25000	179,420
5	25001	30000	130,000
5	30001	35000	145,000
10	35001	40000	369,285
8	40001	45000	334,656
4	45001	50000	194,607
6	50001	55000	314,335
3	55001	60000	165,000
2	60001	65000	127,967
3	65001	70000	203,000
1	70001	75000	70,131
1	80001	85000	82,331
3	165001	170000	484,571
183 -CDC-	----- Details Below -----		19,237,139
<b>2191</b>			<b>22,610,139</b>

BREAK-UP CDC =183= AS:-

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
	FROM	TO	
51	1	100	4,280
49	101	500	24,260
22	501	1000	22,000
39	1001	5000	137,361
8	5001	10000	80,000
4	10001	15000	60,000
1	150001	200000	177,300
1	252001	260000	260,000
2	300001	400000	720,381
1	1000001	2000000	1,721,064
2	2000001	3000000	4,630,063
2	3000001	4000000	7,051,752
1	4000001	5000000	4,348,678
<b>183</b>			<b>19,237,139</b>



### Pattern of share holding as on June 30, 2008 Additional Information

CATEGORIES OF SHARE HOLDERS	NUMBER	SHARES HELD	PERCENTAGE
Directors, Chief Executives Officer and their spouses and minor children.	04 07	(A) 10,699,805 (CDC) (B) 46,415 (Phy)	47.53
Associated Companies, undertakings and related parties.	0	—	—
N.I.T. and I.C.P.	2	1,451 (Phy)	0.01
Banks, Development Financial Institutions, Non Banking Financial Institutions.	0	—	—
Insurance Companies	1	1,284 (Phy)	0.01
Modarbas and Mutual Funds	0	—	—
Shareholders holding shares 10% or more	2	7,051,752 (CDC)	31.18
General Public a. Local b. Foreign	1997 0	3,323,800 (Phy) —	14.70 —
Joint Stock Companies	1	50 (Phy)	0.00
Central Depository Company (a)	177	1,485,582	06.57
<b>TOTAL</b>	<b>2,191</b>	<b>22,610,139</b>	<b>100.00</b>

**(a) Categories of Account Holders and Sub Account Holders as per Central Depository Register:**

CATEGORIES OF SHAREHOLDERS	NUMBER	SHARES HELD	PERCENTAGE
Individuals	171	1,048,793	99.02
Joint Stock Companies	05	436,364	0.96
Financial Institutions	01	425	0.02
<b>TOTAL</b>	<b>177</b>	<b>1,485,582</b>	<b>100.00</b>



## Details of pattern of share holding as per requirements of Code of Corporate Governance as on June 30, 2008

S. NO.	NAME WISE DETAILS	SHARES HELD
1.	<b>Associated Companies</b>	Nil
2.	<b>NIT / ICP</b> Investment Corporation of Pakistan (Karachi) Investment Corporation of Pakistan (Lahore)	718 733 <hr/> <b>1,451 (Phy)</b>
3.	<b>Directors, CEO, their Spouses and Minor Children</b> Mr. Salim N. Mukaty Mr. Ashraf Salim Mukaty Mrs. Hameeda Salim Mukaty - Spouse - Chairman Mrs. Farheen Ashraf Mukaty - Spouse - CEO Mr. Arif Haji Abdul Sattar Maniya Mr. Yusuf N. Mukaty Mr. Noor Muhammad Yusuf Mukaty Mr. Madni Gul Muhammad Mr. Luqman F. Poonawala Mr. Asif Younus Bawany Mr. M. Imran Shekhani	4,348,678 (CDC) 2,177,020 (CDC) 1,721,064 (CDC) 2,453,043 (CDC) 25,466 (Phy) 3,902 (Phy) 3,795 (Phy) 3,795 (Phy) 3,795 (Phy) 3,795 (Phy) 3,162 (Phy) 2,500 (Phy) <hr/> <b>10,746,220</b>
4.	<b>Executives</b>	Nil
5.	<b>Public Sector Companies and Corporations</b>	Nil
6.	<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds</b> EFU General Insurance Ltd.	<b>1,284 (Phy)</b>
7.	<b>Shareholders holding shares 10% or more</b> Mrs. Nargis Shahid Soorty Mrs. Marzia Obaid Bawany	3,114,451 3,937,301 <hr/> <b>7,051,752 (CDC)</b>