

## DIRECTORS' REVIEW

Dear Shareholders,  
Assalam-o-Alaikum

Your Directors are pleased to present before you un-audited accounts for the half year ended December 31, 2007. During the period, your Company has earned a pre-tax profit of Rs.101.452 million.

During the half year under review, sales of the Company increased by 15.52 % when compared with corresponding period of previous year. Net profit after tax of the Company increased by 6.57 % to Rs. 84.329 million when compared with the first half of the previous year.

During the half year under review the prices of raw cotton increased from Rs. 2,490 to Rs. 3,300 per mound. The Government of Pakistan increased minimum wages by 15 % from Rs. 4,000 to Rs. 4,600. This has resulted in a proportionate increase in salary & wages cost. Pak Rupee devalued against the US Dollar, causing exchange loss on dollar denominated loans being availed by the Company. Increase in yarn prices was, however, not proportionate to the increase in cost production due to lackluster demand and poor market conditions. The performance of the Company, in spite of the factors mentioned above, has been satisfactory.


The situation is not expected to improve in the remaining six months of the financial year. Severe load shedding by Sui gas and Wapda, poor law and order conditions and increase in KIBOR have contributed to increase in cost. Due to slowdown in economic growth in Pakistan as well as in western countries, we are unable to pass on this increase to our customers. Management is making all efforts to mitigate the effects of these negative developments.

With respect to the Auditor's qualification, we are of the view that as your Company is holding only 5.73 % (2007: 5.73 %) of total equity of the Company concerned, it does not exercise significant control over the Company concerned's policies and profits. So in lieu of prudence, your company is following its policy of valuing investment in Associated Companies at cost and booking profits/gains only after they are realized.

The basic earning per share of the Company for the six month ended December 31, 2007 is Rs. 4.50 as compared to Rs. 4.22 for corresponding period in previous year.

The relations between the workers and management remained cordial throughout the period. Your Directors wish to thank all workers and staff members for their hard work.

For and on behalf of the Board

  
(Sh. Nuseem Ahmad)  
Chairman / Chief Executive

Dated: Feb 25, 2008

## Report on Review of Interim Financial Information to the Members

### Introduction

We have reviewed the accompanying condensed interim balance sheet of **Fazal Cloth Mills Limited** as of December 31, 2007 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the six-months period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with the approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. Separate figures of the condensed profit and loss account for the quarter ended December 31, 2007 have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2007.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis of qualified conclusion

1. The company has valued its investment in associate at cost contrary to the requirement of IAS-28 "Investment in associates" which requires re-measurement on equity basis. Latest financial statements of the associate have not been made available to quantify the effect of such non compliance (note 5.2).

### Qualified conclusion

Based on our review, except for the matter as stated in para 1 above, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at December 31, 2007 is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan.

Dated: 25.02.2008  
Place: Multan



*M. Yousuf Adil Saleem*  
M. YOUSUF ADIL SALEEM & CO.  
Chartered Accountants  
*M. Y.*

**FAZAL CLOTH MILLS LIMITED**  
**CONDENSED BALANCE SHEET - UNAUDITED**  
**AS AT DECEMBER 31, 2007**

	Note	Un-audited December 31, 2007 Rupees	Audited June 30, 2007 Rupees
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	5,748,398,821	5,553,494,890
Intangible assets		3,289,161	3,588,110
Long term investments	5	252,965,750	252,966,796
Long term Loans		132,881	125,000
Long term deposits		5,035,125	5,785,125
		<u>6,010,623,434</u>	<u>5,915,020,431</u>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		102,272,908	89,527,462
Stock-in-trade		2,148,236,897	1,348,438,299
Trade debts		592,015,410	878,349,795
Loans and advances		190,088,027	88,970,298
Trade deposits and short term prepayments		83,438,687	93,967,275
Tax refunds due from the government		43,838,898	44,099,884
Other receivables		1,391,332	38,028,514
Short term investment	6	65,832,330	-
Cash and bank balances		385,358,089	293,724,183
		<u>5,816,835,880</u>	<u>2,532,962,960</u>
		<u>6,827,259,314</u>	<u>8,348,022,391</u>
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
40,000,000 (2007: 40,000,000) Ordinary shares of Rs. 10 each			
30,000,000 (2007: 30,000,000) Preference shares of Rs. 10 each			
		<u>700,000,000</u>	<u>700,000,000</u>
Issued, subscribed and paid up capital			
Ordinary shares: 18,738,194 (2007: 18,738,194) shares of Rs. 10 each		187,551,840	187,551,840
Preference shares: 25,000,000 (2007: 25,000,000) shares of Rs. 10 each		250,000,000	250,000,000
Capital reserves		77,818,000	77,818,000
Unappropriated profits		813,733,047	398,867,334
		<u>1,428,902,887</u>	<u>1,284,035,274</u>
Surplus on revaluation of operating assets		2,425,570,580	2,497,488,908
<b>NON CURRENT LIABILITIES</b>			
Term finances		273,825,108	328,261,814
Demand finances	T	1,204,734,579	811,888,080
Long term musharaka and murabahs		198,043,057	236,921,286
Deferred liabilities		949,040,427	631,421,477
Bills payable		87,488,963	282,031,891
Custom duties		80,328,863	33,447,901
		<u>2,474,330,717</u>	<u>2,340,198,445</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		244,968,083	235,130,321
Interest and mark-up accrued on loans		74,972,895	73,671,154
Short term borrowings		2,431,391,898	1,485,285,144
Current portion of long term liabilities		486,658,704	380,473,321
Provision for taxation	8	73,551,813	96,428,784
		<u>3,291,453,713</u>	<u>2,271,188,734</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	9	<u>5,821,259,394</u>	<u>8,348,022,391</u>

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

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

  
**CHIEF FINANCIAL OFFICER**

**FAZAL CLOTH MILLS LIMITED**  
**CONDENSED PROFIT AND LOSS ACCOUNT - UNAUDITED**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2007**

	Oct 01, 2007 to Dec. 31, 2007 Rupees	Oct 01, 2006 to Dec. 31, 2006 Rupees	Jul. 01, 2007 to Dec. 31, 2007 Rupees	Jul. 01, 2006 to Dec. 31, 2006 Rupees
Sales - net	1,706,001,282	1,450,748,634	3,398,015,805	2,939,715,933
Cost of goods sold	(1,495,240,911)	(1,258,889,429)	(2,942,470,586)	(2,548,462,284)
<b>Gross profit</b>	<b>211,360,371</b>	<b>191,879,205</b>	<b>453,545,019</b>	<b>391,253,649</b>
Other operating income	140,510	-	575,971	181,928
Distribution cost	(43,471,383)	(45,527,788)	(88,721,269)	(81,508,810)
Administrative expenses	(17,106,314)	(18,944,542)	(34,908,786)	(36,095,226)
Other operating expenses	(5,322,103)	(3,455,851)	(12,671,707)	(7,575,702)
Finance cost	(125,644,892)	(88,249,301)	(218,387,511)	(164,879,278)
<b>Profit before taxation</b>	<b>19,956,189</b>	<b>35,701,723</b>	<b>101,451,717</b>	<b>101,376,561</b>
Provision for taxation	6,028,219	(10,668,431)	(17,123,029)	(22,243,065)
<b>Profit after taxation</b>	<b>25,984,408</b>	<b>25,033,292</b>	<b>84,328,688</b>	<b>79,133,496</b>
<b>Earning per share</b>				
Basic	1.39	1.33	4.50	4.22
Diluted	0.59	0.57	1.93	1.81

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

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

  
**CHIEF FINANCIAL OFFICER**

FAZAL CLOTH MILLS LIMITED  
CONDENSED CASH FLOW STATEMENT - UNAUDITED  
FOR THE HALF YEAR ENDED DECEMBER 31, 2007

	Jul. 01, 2007 to Dec. 31, 2007 Rupees	Jul. 01, 2006 to Dec. 31, 2006 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period - before taxation	101,461,717	181,378,681
<b>Adjustments for:</b>		
Depreciation of operating assets	122,565,761	117,762,512
Amortization of intangible assets	298,000	299,000
Loss on valuation of short term investment	2,893,317	-
Provision for gratuity	11,952,039	5,314,256
Provision for infrastructure cess	4,779,292	3,238,784
Gain on disposal of operating assets	(431,101)	(181,928)
Finance cost	216,367,511	164,679,278
<b>- Before working capital changes</b>	<b>458,027,545</b>	<b>382,688,471</b>
Decrease / (increase) in current assets		
Stores, spares and loose tools	(19,544,544)	824,577
Stock in trade	(802,804,198)	(759,215,753)
Trade debts	(13,885,625)	(72,615,986)
Loans and advances	(100,888,289)	(43,030,950)
Trade deposits and short term prepayments	(5,179,974)	(14,120,618)
Tax refunds due from the government	426,886	(5,262,091)
Other receivables	26,036,632	(18,736,645)
	<b>8,038,202</b>	<b>(2,111,218)</b>
Increase / (decrease) in trade and other payables	(888,966,736)	(904,289,185)
<b>CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(428,153,185)</b>	<b>(513,580,714)</b>
<b>- Before taxation</b>		
Gratuity paid	(4,019,988)	(4,770,663)
Income tax paid	(23,389,838)	(23,553,032)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(455,561,912)</b>	<b>(541,904,408)</b>
Long term loans to employees - net	(7,881)	295,500
Long term deposits	(50,000)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(455,619,793)</b>	<b>(541,608,908)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of operating assets	(317,459,791)	(274,418,263)
Addition in intangible assets	-	(46,901)
Proceeds from disposal of operating assets	450,000	707,050
Short term investment	(68,635,667)	-
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(385,645,458)</b>	<b>(273,758,214)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Term finances - net	(80,267,701)	(95,536,781)
Demand finances - net	412,487,139	125,903,290
Long term musarika & murabahah - net	11,500,000	(70,892,087)
Short term borrowings - net	956,016,551	1,104,106,668
Dividend paid	-	(5,528)
Bills payable/repaid	(194,573,028)	-
Finance cost paid	(212,265,800)	(181,867,153)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<b>922,897,161</b>	<b>841,267,489</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>91,831,910</b>	<b>125,812,386</b>
<b>CASH AND CASH EQUIVALENTS - At the beginning of the period</b>	<b>283,234,183</b>	<b>327,267,338</b>
<b>CASH AND CASH EQUIVALENTS - At the end of the period</b>	<b>385,350,093</b>	<b>453,079,612</b>

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

FAZAL CLOTH MILLS LIMITED  
 CONDENSED STATEMENT OF CHANGES IN EQUITY - UNAUDITED  
 FOR THE HALF YEAR ENDED DECEMBER 31, 2007

	Issued subscribed and paid up capital	Capital reserve	Unappropriated profit	Total
	Rupees			
Balance as at July 01, 2006	413,088,640	77,616,000	693,505,039	1,184,209,679
Bonus shares for the year ended June 30, 2006 @ 15% of issued, subscribed and paid up capital	24,463,300	-	(24,463,300)	-
Profit for the period	-	-	79,133,496	79,133,496
Balance as at December 31, 2006	<u>437,551,940</u>	<u>77,616,000</u>	<u>748,175,235</u>	<u>1,263,343,175</u>
Balance as at July 01, 2007	437,551,940	77,616,000	768,867,334	1,284,035,274
Profit for the period	-	-	84,328,688	84,328,688
Transfer to unappropriated profit from revaluation surplus	-	-	60,537,525	60,537,525
Balance as at December 31, 2007	<u>437,551,940</u>	<u>77,616,000</u>	<u>913,733,547</u>	<u>1,428,901,487</u>

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

  
 CHIEF EXECUTIVE OFFICER

  
 DIRECTOR

  
 CHIEF FINANCIAL OFFICER

**FAZAL CLOTH MILLS LIMITED**  
**SELECTED EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2007**

1. Fazal Cloth Mills Limited (the Company) was incorporated in Pakistan in 1999 as a Public Limited Company and its shares are quoted on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at 3rd floor, 35 Bank Square, Lahore. The Company is engaged in manufacture and sale of yarn. The Company's manufacturing facilities are located at Fazal Nagar, Jhang Road, Muzaffargarh and Gadiapur Rawan Bypass, Kharnaul Road, Multan.
2. These un-audited interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' and in compliance with requirements of section 245 of the Companies Ordinance, 1984. A limited scope review of these interim financial statements has been performed by the external auditors of the company in accordance with the requirements of clause (xii) of the Code of Corporate Governance.
3. The accounting policies and conventions adopted for the preparation of these half yearly financial statements are the same as those applied in the preparation of the financial statements for the year ended June 30, 2007 except for policy adopted for short term investment made during the year as stated below.

**Short term investment**

Short term investments are designated at fair value through profit or loss at inception. These are initially measured at fair value and changes in re-measurement are taken to profit and loss account. Regular way purchase or sale of held for trading investments is recognized using trade date accounting. A trade date is the date that an enterprise commits to purchase or sell an asset. All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

	Note	Un-audited December 31, 2007	Audited June 30, 2007
(Amount in Rupees)			
<b>4. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets	4.1	5,247,800,712	5,355,055,998
Capital work in progress		500,798,909	198,408,490
		<u>5,748,599,621</u>	<u>5,553,464,488</u>
4.1 Opening balance		5,355,055,998	2,292,072,219
Additions during the period / year			
Cost			
Freehold land		-	2,150,180
Factory building		-	43,308,513
Plant and machinery		8,332,750	323,378,992
Furniture and fixtures		544,544	906,890
Office equipment		2,918,972	1,099,827
Vehicles		1,471,771	7,074,529
Electric fittings and installations		1,862,231	18,730,810
Sul gas installations		-	49,818
Tools, laboratory equipment and arms		-	100,000
Fire extinguishing equipment and weighing scales		-	127,000
		15,068,274	387,327,536
Revaluation surplus			
Freehold land		-	494,326,032
Factory building		-	405,245,750
Non factory building		-	245,316,213
Plant and machinery		-	1,705,044,328
Electric fittings and installations		-	38,205,127
Sul gas installations		-	1,074,304
Tools, laboratory equipment and arms		-	13,513,285
Fire extinguishing equipment and weighing scales		-	17,501,072
		-	2,915,827,805
Book value of assets disposed off during the period / year		(10,000)	(2,422,819)
Depreciation charge for the period / year			
Normal on cost		(51,908,230)	(248,348,842)
Incremental on revaluation surplus		(80,537,526)	-
Closing book value		<u>5,247,800,712</u>	<u>5,355,055,998</u>

- 4.2 During the current period, Company reviewed the useful life of some of the operating assets and estimated that useful life of these assets is higher than existing. Accordingly depreciation rates of the following operating assets were reduced from 10% p.a to 9% p.a:

**Nature of operating assets**

Factory building  
Plant and machinery  
Electric fittings and installation  
Sul gas installations  
Tools, laboratory equipments and arms  
Fire extinguishing equipment and weighing scales

The above mentioned revision has been accounted for as change in accounting estimates in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly the effect of change in accounting estimate has been recognized prospectively in the profit and loss account for the current period. Had there been no change in the accounting estimate, the profit before taxation for the period and written down value of these operating assets would have been decreased by Rs.111.787 million.

**5. LONG TERM INVESTMENTS**

Un-audited December 31, 2007	Audited June 30, 2007	Note	Un-audited December 31, 2007	Audited June 30, 2007
<u>(Number of ordinary shares)</u>			<u>(Amount in Rupees)</u>	
<b>Investment in associates</b>				
104,500	104,500	Fazol Industries (Pvt.) Ltd. Equity interest held 9.5% (June 30, 2007: 9.5%)	475,000	475,000
		Less: Provision for diminution in value	475,000	475,000
17,103,740	4,258,890	Pak Arab Fertilizers Ltd. Equity interest held 5.73% (June 30, 2007: 5.73%)	252,996,706	252,996,706
			<u>252,996,706</u>	<u>252,996,706</u>

5.1 Break up value per share on the basis of unaudited financial statements for the year ended June 30, 2007 is Rs. Nil.

5.2 Financial statements of the associate as of December 31, 2007 are not available, therefore, the investments as of December 31, 2007 could not be re-measured on equity basis as required by the IAS-28.

5.3 During the period the company has received 12,835,074 shares as bonus issue by associate.

**6. SHORT TERM INVESTMENTS**

Held for trading - Quoted (At fair value)

Allied Bank Limited 108,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs. 130.15 each	24,485,200	
Pakistan Petroleum Limited 63,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs.245.05 each	20,336,150	
Fajal Fertilizers Bin Qasim Limited 600,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs. 42.85 each	21,025,000	
	<u>65,832,350</u>	



7. DEMAND FINANCES

During the year a demand finance amounting Rs. 36,010 million from Habib Bank Limited has been obtained for retirement of letters of credit opened for imported plant and machinery and for swap of existing long term loans. Sanctioned limit of this finance is Rs. 290.00 million. It is repayable within a period of seven years including one year grace period in 12 equal semi annual installments of principal amount. It carries mark up at the rate of 6 months LIBOR, plus spread of 1.00% p.a for first year, 1.25% p.a for second year and 1.50% p.a from third year and onward. It is secured against first pari passu charge of Rs. 257.00 million on fixed assets of the Company and personal guarantees of all sponsoring directors of the Company.

8. TAXATION

Provision for current period taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.8% of turnover, whichever is higher.

9. CONTINGENCIES AND COMMITMENTS

9.1 There has been no change in status of contingent liabilities since the annual published financial statements as at June 30, 2007.

9.2 Counter guarantees given by the Company to its bankers outstanding as on December 31, 2007 were Rs. 652,790 million (June 30, 2007: Rs. 147,523 million).

9.3 Commitments for irrevocable letters of credit:

	Un-audited December 31, 2007	Audited June 30, 2007
	(Rupees in million)	
Capital expenditure	63,490	270,297
Revenue	584,893	400,422
	648,383	670,719

10. RELATED PARTY TRANSACTIONS

10.1 Aggregate transactions made during the period / year with the associated undertakings were as follows:

	Un-audited December 31, 2007	Audited June 30, 2007
	(Amount in Rupees)	
Sale of goods	362,478,870	595,750,182
Purchase of goods	129,411,830	107,051,404
Transfer of operating assets	-	104,303
Services received	-	47,473

10.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

11. These financial statements were authorized for issue by the Board of Directors on **Feb 25 2008**

12. FIGURES

Figures have been rounded-off to nearest rupee, except stated otherwise.

  
CHIEF EXECUTIVE OFFICER

  
DIRECTOR

  
CHIEF FINANCIAL OFFICER