



## C O N T E N T S

COMPANY INFORMATION	2
VISION AND MISSION STATEMENT	3
NOTICE OF ANNUAL GENERAL MEETING	4
DIRECTORS' REPORT TO THE MEMBERS	5
PATTERN OF SHAREHOLDING	9
STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE	12
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE	14
AUDITORS' REPORT TO THE MEMBERS	15
BALANCE SHEET	16
PROFIT AND LOSS ACCOUNT	18
CASH FLOW STATEMENT	19
STATEMENT OF CHANGES IN EQUITY	20
NOTES TO THE FINANCIAL STATEMENTS	21
PROXY FORM	

**COMPANY INFORMATION**

<b>BOARD OF DIRECTORS</b>	Javed Saifullah Khan - <b>Chairman/Chief Executive</b> Osman Saifullah Khan Kulsum Saifullah Khan Omar Saifullah Khan Jehangir Saifullah Khan Ch. Maqbool Ahmad Hoor Yousafzai
<b>AUDIT COMMITTEE</b>	Ch. Maqbool Ahmad - <b>Chairman</b> Jehangir Saifullah Khan - <b>Member</b> Hoor Yousafzai - <b>Member</b>
<b>CHIEF FINANCIAL OFFICER</b>	Zaheen-ud-Din Qureshi
<b>COMPANY SECRETARY</b>	Mumtaz H. Chaudhry
<b>AUDITORS</b>	Hameed Chaudhri & Co., Chartered Accountants
<b>LEGAL ADVISORS</b>	Dr. Pervez Hassan Hassan & Hassan, Advocates Abdul Latif Yousafzai, Advocate
<b>BANKERS</b>	National Bank of Pakistan United Bank Limited Albaraka Islamic Bank The Bank of Punjab First National Bank Modaraba
<b>HEAD OFFICE</b>	Kulsum Plaza, 4th Floor, 2020 - Blue Area, Islamabad Phone : (051) 2823924, 2829415 Fax : (051) 2822564, 2278537 Email : ktm@saifgroup.com
<b>REGISTERED OFFICE</b>	APTMA House, Tehkal Payan, Jamrud Road, Peshawar Phone : (091) 5843870, 5702941 Fax : (091) 5840273 Email : peshawar@saifgroup.com
<b>MILLS</b>	Saifabad, Kohat Phone : (0922) 518615, 518712 Fax : (0922) 512295 Email : ktmkht@saifgroup.com
<b>WEB SITE</b>	<a href="http://www.kohattextile.com">www.kohattextile.com</a>

## VISION AND MISSION STATEMENT

### VISION

- ❖ To attain market leadership through unmatched quality, a diverse and unique product mix, empowered employees, world class systems and the highest ethical and professional standards.

### MISSION

- ❖ Give our shareholders a competitive return on their investment through market leadership, sustainable business growth and sound financial management.
- ❖ Earn and sustain the trust of our stakeholders through efficient resource management.
- ❖ Provide the highest quality products and services consistent with customer needs and continue to earn the respect, confidence and goodwill of our customers and suppliers.
- ❖ Foster a culture of trust and openness in order to make professional life at the **Kohat Textile Mills Limited** a stimulating and challenging experience for all our people.
- ❖ Strive for the continuous development of Pakistan while adding value to the textile sector.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that 42<sup>nd</sup> Annual General Meeting of the member of **KOHAT TEXTILE MILLS LIMITED** will Insha Allah be held at registered office of the company, APTMA House, Jamrud Road, Peshawar on Friday, 31 October, 2008 at 12:00 noon to transact the following business:

1. To confirm the minutes of the 41st Annual General Meeting held on 30 October, 2007.
2. To receive consider and adopt Annual Audited financial statements for the year ended 30 June, 2008 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending 30 June, 2009 and fix their remuneration. The retiring auditors M/s. Hameed Chaudhri & Co. Chartered Accountants, being eligible offered themselves for re-appointment.
4. To transact any other business with the permission of the Chair.

By order of the Board

Place: Islamabad  
Dated: 09 October, 2008

**MUMTAZ H. CHAUDHRI**  
Company Secretary

### NOTES:

1. Share Transfer Books of the Company will remain closed from 24.10.2008 to 31.10.2008 (both days inclusive)
2. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. The instruments appointing the proxy, duly completed, must be received at the company's Registered Office not later than 48 hours before the time of holiday of the meeting.
3. CDC individual Account holders or Sub-account holders are required to bring with them their original Computerized National Identity Card (CNIC) / original passport along with participant's ID number and their account number in order to facilitate identification.
4. In case of Corporate entity, resolution of the Board of Directors / Power of attorney with specimen signature of nominees shall be produced (unless provided earlier) at the time of meeting.
5. Members are requested to promptly notify any change in their address.

## DIRECTORS' REPORT TO THE MEMBERS

On behalf of Board of Directors of Kohat Textile Mills Limited, it gives me pleasure to present the 42<sup>nd</sup> Annual Audited Financial Statements for the year ended 30<sup>th</sup> June 2008.

### OPERATING RESULTS

The major highlights of your company as compared to the corresponding period of the preceding financial year are as follows:

#### Turnover

The Company achieved a 9% increase in turnover by adopting a well thought out product diversification strategy.

#### Profitability

Despite a 9% increase in sales in the year under review, your Company suffered a net loss. The main reasons were the sustained and prolonged depression in the domestic market, a spiraling in the cost of inputs caused by the elevated prices of petroleum products, a mandatory increase in minimum wage and the rising cost of borrowing. However the key contributory factors leading to the textile industry crisis include:

- Drastic negative change in the parity of PKR verses US dollar and other major foreign currencies. During the last 9 months, the value of the Rupee has fallen to PKR 78 per US\$ from PKR 61 per US\$.
- Sharp increase in cotton prices which have risen to PKR 4,000 per maund from PKR 3,200 per maund.
- Rocketing inflation which is presently at 27%.
- Rise in KIBOR which has increased from 10% to over 14%.
- Increased in cost of power of about 25%.

As a direct consequence of all these factors, the Profit Margin before finance cost declined to 1.32% from 4.57% in the previous financial year; thereby resulting in an after tax loss of Rs. 55.220 million during the current year compared to a loss of Rs. 22.864 million during the previous corresponding period.

### LOSS PER SHARE

The loss per share of the Company remained at Rs. 2.65 as compared to Rs. 1.10 for 2007.

### APPROPRIATIONS

In view of the net loss suffered by the Company your Directors have decided not to pay any dividend this year.

### CONTRIBUTION TO THE NATIONAL ECONOMY

Besides payment to the financial institutions against long and short-term debt, the Company contributed Rs. 18.929 million (2007: Rs. 39.512 million) to the National Exchequer during the year under review in sales tax, surcharges and various other levies.

### QUALIFICATION IN AUDITORS' REPORT

The auditor's have qualified the report on the basis that company has recognized the deferred tax asset of Rs. 41.588 million despite the availability of unused tax losses. The management is of the view that we have been achieving consistent sales growth as per our plan. However the operating cost structure has suddenly increased which resulted in losses.

### FUTURE OUTLOOK

Pakistan's textile sector is heading towards a downturn, primarily due to prevailing impediments in the national economy. The sharp rises in the cost of domestic borrowing, accompanied by similar unilateral escalations in the cost of energy and the inconsistent supply are creating extremely challenging environment for all manufacturers. The seemingly infinite rise in financial charges and mark up rates is a critical factor that will inclemently affect the profitability of the entire textile sector. Moreover, government mandated the minimum wage has also been significantly increased.

Given this operating environment, the challenge that lies before your Company's management is indeed a Herculean one. The mission before us is to minimize the adverse impacts of the depressed market and economic conditions, through our dedication and efficiency.

### STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

We are pleased to report that your company has taken the necessary steps to comply with the provisions of the Code of Corporate Governance, as incorporated in the listing rules of the Stock Exchanges.

- a) The financial statements, for the year ended on 30<sup>th</sup> June 2008 prepared by the management of the Company, present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
- b) The Company has maintained proper books of account.
- c) Appropriate accounting policies have been consistently applied in the preparation of financial statements. The accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no uncertainties upon the Company's ability to continue as a going concern.
- g) There has been no departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
- h) The Board of Directors has formed an Audit Committee. It comprises of three members of the Board.
- i) The Company has prepared and circulated a Statement of Ethics and Business Strategy among directors and key employees.

- j) The Board of Directors has adopted a Mission Statement and a Statement of Overall Corporate Strategy.
- k) Key operating and financial data of the company for the last six years is reproduced below:

Year ended	30 June,				30 September,	
	2008	2007	2006	2005 9 months	2004	2003
Operating assets (RS 000)	752,160	644,698	676,148	618,061	450,662	252,926
Net worth (Rs 000)	366,046	306,829	329,693	281,243	206,275	126,080
Production (Kgs 000)	5,783	6,232	6,105	4,138	3,410	2,639
Turnover (Rs 000)	1,438,648	1,317,002	1,180,286	786,446	629,323	490,528
Gross profit (Rs 000)	67,708	101,870	128,311	26,088	45,372	33,040
Profit before finance cost (Rs 000)	25,620	60,500	87,827	51	11,287	3,271
Net (loss) after taxation (Rs 000)	(55,221)	(22,864)	(1,550)	(24,306)	(4,483)	(836)
Earnings/(Loss)/per share (Rs)	(2.65)	(1.10)	(0.10)	(2.76)	(0.51)	(0.10)

- l) During the year 05 meetings of the Board of Directors were held. Attendance by each director is as follows:

<u>Name of Director</u>	<u>No of meetings attended</u>
Javed Saifullah Khan	05
Osman Saifullah Khan	02
Kulsum Saifullah Khan	03
Omar Saifullah Khan	02
Jehangir Saifullah Khan	04
Ch. Maqbool Ahmad	05
Zafar Qureshi	04
Mrs. Hoor Yousafzai	01

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

- m) The Directors, Chief Executive, Chief Financial Officer, Company Secretary, their spouses and minor children have made no transactions in the company's shares during the year under review other than those disclosed in the pattern of shareholdings.
- n) There are no outstanding statutory payments due on account of taxes, duties, levies & charges except of a normal and routine matter.
- o) The company operates an un-funded gratuity scheme for its eligible employees. Provision is made annually to cover obligations under the scheme in accordance with actuarial recommendations.

**PATTERN OF SHAREHOLDING**

The pattern of shareholding of the Company under section 236(2) (d) of the Companies Ordinance, 1984 and additional information as required by the Code of Corporate Governance is annexed.

**AUDITORS**

The present auditors M/s Hameed Chaudhri & Co., Chartered Accountants, retire and being eligible to offer themselves for re-appointment. As suggested by the Audit Committee, the Board recommends their appointment as auditors of the Company to hold office from the conclusion of the Annual General Meeting to be held on 31 October, 2008 until the conclusion of the next Annual General Meeting.

**ACKNOWLEDGEMENT**

The Directors wish to record their appreciation of the steadfast support of our valued customers and bankers. We also highlight and acknowledge the hard work put in by all the members of our corporate family. The increase in sales and turnover in the current operating climate is a testament to the contribution made by them during the current financial year. We are confident that the Executives, Officers and Staff will continue to show the same dedication and performance for the smooth operation and success of your Company in the future.

**For and on behalf of the Board**

Place: Islamabad  
Dated: 09 October, 2008

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive



## PATTERN OF SHAREHOLDING AS AT 30 JUNE, 2008

Incorporation Number of the Company

C 43 of 1966 - 1967

No. of Share Holders	Shareholding		Total Shares Held
	From	To	
464	1	100	36,099
147	101	500	47,050
57	501	1,000	52,540
67	1,001	5,000	189,435
11	5,001	10,000	81,885
6	10,001	15,000	75,367
2	15,001	20,000	38,000
1	20,001	25,000	23,542
2	25,001	30,000	54,931
1	30,001	35,000	30,500
4	35,001	40,000	154,250
1	40,001	45,000	44,000
1	45,001	50,000	49,000
1	60,001	65,000	62,500
1	85,001	90,000	87,200
3	95,001	100,000	100,000
1	100,001	110,000	107,887
1	110,001	120,000	116,704
1	125,001	130,000	129,500
1	190,001	195,000	192,700
1	2,905,001	2,910,000	2,906,900
1	6,340,001	6,345,000	6,340,010
1	9,875,001	9,880,000	9,880,000
<b>776</b>	<b>Total</b>		<b>20,800,000</b>

Categories of Share Holders	Number of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, their spouse & minor Children	8	326,989	1.57
Associated Companies, Undertaking & related parties	12	16,296,201	78.35
NIT and ICP	5	84,000	0.40
Banks Development Financial Institutions			
Non-Banking Financial Institutions	6	3,009,050	14.47
Insurance Companies	2	1,350	0.01
Joint Stock Companies	15	378,750	1.82
Modarabas & Mutual Funds		Nil	Nil
Shareholders holding 10% As mentioned under the head Associated Companies, Banks, Development Financial Institutions & Non Banking Financial Institutions.			
Executives		Nil	Nil
General Public			
A. Local	726	700,584	3.37
B. Foreign		Nil	Nil
Others	2	3,076	0.01
<b>Total</b>	<b>776</b>	<b>20,800,000</b>	<b>100.00</b>

## DETAIL OF CATEGORY OF SHAREHOLDERS AS AT 30 JUNE, 2008

Sr. No.	Name of Shareholders	Shares Held	Percentage
<b>Directors, Chief Executive and their spouse and minor children</b>			
1	Javed Saifullah Khan	107,887	0.52
2	Osman Saifullah Khan	62,500	0.30
3	Jehangir Saifullah Khan	116,704	0.56
4	Kulsum Saifullah Khan	11,867	0.06
5	Mrs. Hoor Yousafzai	500	0.00
6	Omar Saifullah Khan	26,931	0.13
7	Ch. Maqbool Ahmad(SHL Nominee)	0	0.00
8	Gulshan Saifullah Khan	600	0.00
<b>Total</b>		<b>326,989</b>	<b>1.57</b>
<b>Associated Companies, Undertakings and Related Parties</b>			
1	Saif Holding Limited	9,880,000	47.50
2	Globecomm (Pvt) Limited	6,340,010	30.48
3	Humayun Saifullah Khan	10,000	0.05
4	Anwar Saifullah Khan	1,526	0.01
5	Salim Saifullah Khan	715	0.00
6	Iqbal Saifullah Khan	4,450	0.02
7	Samina Saifullah Khan	15,000	0.07
8	Shirin Saifullah Khan	500	0.00
9	Shehernaz Saifullah Khan	14,000	0.07
10	Yasmin Saifullah Khan	5,000	0.02
11	Shirin Saifullah Khan	5,000	0.02
12	Zeb Saifullah Khan	20,000	0.10
<b>Total</b>		<b>16,296,201</b>	<b>78.35</b>
<b>NIT &amp; ICP</b>			
1	National Bank of Pakistan(Trustee Wing)	38,569	0.19
2	National Bank of Pakistan (Trustee Wing)	750	0.00
3	National Bank of Pakistan (Trustee Wing)	39,731	0.19
4	Investment Corporation of Pakistan	4,550	0.02
5	IDBP (ICP UNIT)	400	0.00
<b>Total</b>		<b>84,000</b>	<b>0.40</b>
<b>Banks, Development Financial Institutions and Non Banking Financial Institutions</b>			
1	United Bank Limited	100,000	0.48
2	Habib Bank Limited	100	0.00
3	Muslim Commercial Bank Limited	2,000	0.01
4	National Bank of Pakistan	2,906,700	13.97
5	National Bank of Pakistan	200	0.00
6	Bank of Bahawalpur Limited	50	0.00
<b>Total</b>		<b>3,009,050</b>	<b>14.47</b>

Sr. No.	Name of Shareholders	Shares Held	Percentage
---------	----------------------	-------------	------------

**Insurance Companies**

1	United Insurance Company of Pakistan	1,150	0.01
2	Eastern "Federal Union Insurance Company"	200	0.00
<b>Total</b>		<b>1,350</b>	<b>0.01</b>

**Joint Stock Companies**

1	Assadullah Limited	500	0.00
2	M/s. Muhammad Amin Limited	200	0.00
3	Molasses Export Company Limited	100	0.00
4	Fateh Textile Mills Limited	50	0.00
5	Murree Brewery Company Limited	50	0.00
6	AmbreenSilk Mills limited	400	0.00
7	Naseer Shaheed Limited	300	0.00
8	United Executors & Trustee Company Limited	500	0.00
9	Azeem Services Limited	100	0.00
10	NH Securities (Pvt) Limited	4,000	0.02
11	Pak Ismailia Cooperative	350	0.00
12	Javed Omar Vohra & Co. Limited	192,700	0.93
13	Azee Securities (Pvt) Limited	1,000	0.00
14	RS Holdings (Pvt) Limited	129,500	0.62
15	Ali Hussain Rajabali Limited	49,000	0.24
<b>Total</b>		<b>378,750</b>	<b>1.82</b>

**General Public (Local)**

<b>Total</b>	<b>700,584</b>	<b>3.37</b>
--------------	----------------	-------------

**Others**

1	Abondent Properties	3,075	0.01
2	Securities & Exchange Commission of Pakistan	1	0.00
<b>Total</b>		<b>3,076</b>	<b>0.01</b>

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of Corporate Governance.

### **The Company has applied the principles contained in the Code in the following manner:**

1. The company encourages representation of non-executive directors and at present, all the members of the Board are non-executive directors except for Chief Executive Officer.
2. The Directors have confirmed that none of them is serving as a Director in more than ten listed Companies, including this Company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFIs or, being a member of a Stock Exchange, has been declared as a defaulter by the Stock Exchange.
4. A casual vacancy was occurred in the Board during the year which was filled by the board forthwith.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and key employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged in-house orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and 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 of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with the corporate and financial reporting requirements of the Code.
15. The Board of Directors has formed an Audit Committee comprising of 3 members. All members including the Chairman of the Committee, are non executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised the Committee for compliance.
17. The Board has set-up an effective internal audit function and the personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The Statutory Auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the Firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the Auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principals contained in the Code have been complied with.

**For and behalf of the Board**

Place : Islamabad  
Dated : 09 October, 2008

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive

**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 **KOHAT TEXTILE MILLS LIMITED** to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XI of the Islamabad 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 status of the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June, 2008.

Place: Lahore  
Dated: 09 October, 2008

**HAMEED CHAUDHRI & CO.,**  
Chartered Accountants

## AUDITORS' REPORT TO THE MEMBRERS

We have audited the annexed balance sheet of **KOHAT TEXTILE MILLS LIMITED** as at 30 June, 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 explanation which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that;

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the companies ordinance, 1984, in the manner so required and, except for the fact that deferred tax asset has been recognized despite the availability of unutilized tax losses as detailed in note 21 and the extent to which this may affect the annexed financial statements, respectively give a true and fair view of the state of the company's affairs as at 30 June, 2008 and of the loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no zakat was deductible at source under zakat and Ushr ordinance, 1980 (XVIII of 1980).

Place: Lahore  
Dated: 09 October, 2008

**HAMEED CHAUDHRI & CO.,**  
Chartered Accountants

**BALANCE SHEET**

		2008	2007
		(Rupees in thousand)	
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL</b>			
Authorised capital			
22,000,000 ordinary shares		<u>220,000</u>	<u>220,000</u>
of Rs.10 each			
Issued, subscribed and			
paid-up	7	208,000	208,000
<b>ACCUMULATED LOSS</b>		<u>(106,553)</u>	<u>(54,554)</u>
		101,447	153,446
<b>SURPLUS ON REVALUATION</b>			
<b>    OF PROPERTY, PLANT</b>			
<b>    AND EQUIPMENT</b>	8	264,599	153,383
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	9	250,000	250,000
Liabilities against assets			
subject to finance lease	10	32,660	61,769
Long term deposits	11	1,526	1,454
Deferred liability			
Staff retirement benefits	12	20,339	14,659
		304,525	327,882
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	71,489	89,903
Accrued interest / mark-up	14	26,241	17,529
Short term borrowings	15	501,734	426,308
Current portion of liabilities			
against assets subject			
to finance lease	10	31,403	29,421
Taxation	16	0	194
		630,867	563,355
<b>CONTINGENCIES AND</b>			
<b>    COMMITMENTS</b>	17		
		<u>1,301,438</u>	<u>1,198,066</u>

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

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive



## AS AT 30 JUNE, 2008

	Note	2008 (Rupees in thousand)	2007
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property, plant and equipment	18	752,160	645,147
Intangible assets	19	0	263
Long term loans	20	2,421	1,906
Long term deposits		1,137	1,137
Deferred taxation	21	41,588	34,000
		<b>797,306</b>	<b>682,453</b>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	22	25,356	24,302
Stock-in-trade	23	188,602	338,671
Trade debts	24	267,681	139,426
Loans and advances	25	2,900	1,474
Deposits and short term prepayments	26	844	1,179
Other receivables	27	1,448	316
Taxation	16	847	0
Sales tax refundable		16,397	10,130
Bank balances	28	57	115
		<b>504,132</b>	<b>515,613</b>
		<b>1,301,438</b>	<b>1,198,066</b>

**MRS. HOOR YOUSAFZAI**  
Director

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

	Note	2008 (Rupees in thousand)	2007
<b>SALES</b>	29	1,438,648	1,317,002
<b>COST OF SALES</b>	30	<u>1,370,940</u>	<u>1,215,132</u>
<b>GROSS PROFIT</b>		67,708	101,870
<b>DISTRIBUTION COST</b>	31	<u>7,732</u>	<u>8,724</u>
<b>ADMINISTRATIVE EXPENSES</b>	32	<u>34,356</u>	<u>32,646</u>
		<u>42,088</u>	<u>41,370</u>
		25,620	60,500
<b>FINANCE COST</b>	33	<u>112,392</u>	<u>96,119</u>
<b>OPERATING LOSS</b>		(86,772)	(35,619)
<b>OTHER OPERATING INCOME</b>	34	<u>673</u>	<u>1,047</u>
<b>LOSS BEFORE TAXATION</b>		(86,099)	(34,572)
<b>TAXATION</b>			
- Current	16	<u>7,194</u>	<u>6,575</u>
- Prior years'	16	14	(309)
- Deferred	21	<u>(38,086)</u>	<u>(17,974)</u>
		<u>(30,878)</u>	<u>(11,708)</u>
<b>LOSS AFTER TAXATION</b>		<u>(55,221)</u>	<u>(22,864)</u>
		----- Rupees -----	
<b>LOSS PER SHARE</b>	35	<u>(2.65)</u>	<u>(1.10)</u>

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

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive

**MRS. HOOR YOUSAFZAI**  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE, 2008

	2008	2007
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the year - before taxation	(86,099)	(34,572)
Adjustments for non-cash and other charges:		
Depreciation and amortisation	52,872	56,856
Staff retirement benefits - gratuity (net)	5,680	(681)
Unclaimed balances written-back	(71)	(297)
Gain on disposal of vehicles	(170)	(461)
Finance cost	<u>112,392</u>	<u>94,791</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES - Before working capital changes</b>	<b>84,604</b>	<b>115,636</b>
(Increase) / decrease in current assets:		
Stores, spare parts and loose tools	(1,054)	(1,813)
Stock-in-trade	150,069	(31,721)
Trade debts	(128,255)	(7,511)
Loans and advances	(1,426)	(84)
Deposits and short term prepayments	335	(576)
Other receivables	(1,132)	592
Sales tax refundable	(6,267)	(1,132)
(Decrease) / increase in trade and other payables	<u>(18,343)</u>	<u>29,831</u>
	<u>(6,073)</u>	<u>(12,414)</u>
<b>CASH INFLOW FROM OPERATING ACTIVITIES - Before taxation</b>	<b>78,531</b>	<b>103,222</b>
Taxes paid	<u>(8,249)</u>	<u>(5,882)</u>
<b>CASH INFLOW FROM OPERATING ACTIVITIES - After taxation</b>	<b>70,282</b>	<b>97,340</b>
Long term loans - net	<u>(515)</u>	<u>(209)</u>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>69,767</b>	<b>97,131</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(15,626)	(16,561)
Sale proceeds of vehicles	1,110	890
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(14,516)</b>	<b>(15,671)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Long term financing - net	0	16,000
Liabilities against assets subject to finance lease - net	(27,127)	(28,464)
Long term deposits	72	307
Short term borrowings - net	75,426	31,167
Finance cost paid	<u>(103,680)</u>	<u>(100,797)</u>
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>	<b>(55,309)</b>	<b>(81,787)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(58)</b>	<b>(327)</b>
<b>CASH AND CASH EQUIVALENTS - At the beginning of the year</b>	<b>115</b>	<b>442</b>
<b>CASH AND CASH EQUIVALENTS - At the end of the year</b>	<b><u>57</u></b>	<b><u>115</u></b>

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

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive

**MRS. HOOR YOUSAFZAI**  
Director

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

	Share capital	Accumulated loss	Total equity
	----- Rupees in thousand -----		
Balance as at 30 June, 2006	208,000	(34,783)	173,217
Loss after taxation for the year ended 30 June, 2007	0	(22,864)	(22,864)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year - net of deferred taxation	0	3,093	3,093
Balance as at 30 June, 2007	<u>208,000</u>	<u>(54,554)</u>	<u>153,446</u>
Loss after taxation for the year ended 30 June, 2008	0	(55,221)	(55,221)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year-net of deferred taxation	0	3,222	3,222
<b>Balance as at 30 June, 2008</b>	<b><u>208,000</u></b>	<b><u>(106,553)</u></b>	<b><u>101,447</u></b>

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

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive

**MRS. HOOR YOUSAFZAI**  
Director

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

### 1. LEGAL STATUS AND OPERATIONS

Kohat Textile Mills Limited (the Company) is a public limited Company incorporated in Pakistan during the year 1967 and its shares are quoted on Karachi and Islamabad Stock Exchanges. It is principally engaged in manufacture and sale of yarn. The Company's Mills are located in Saifabad, Kohat and the Registered Office of the Company is located at APTMA House, Tehkal Payan, Jamrud Road, Peshawar.

### 2. STATEMENT OF COMPLIANCE

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

### 3. BASIS OF MEASUREMENT

#### 3.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for the following:

- modification of foreign currency translation adjustments;
- recognition of employee retirement benefits at present value; and
- measurement of certain operating fixed assets at revalued amounts.

#### 3.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

### 4. USE OF ESTIMATES AND JUDGEMENTS

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

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

Judgements made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

**(a) Staff retirement benefits - gratuity**

Certain actuarial assumptions have been adopted as disclosed in these financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

**(b) Taxation**

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

**(c) Property, plant and equipment**

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

## **5 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE**

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 01 July, 2008 and are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in certain cases:

- Revised IAS 1 - Presentation of Financial Statements;
- Revised IAS 23 - Borrowing Costs;
- IAS 29 - Financial Reporting in Hyperinflationary Economies;
- IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendments to IAS 1 - Presentation of Financial Statements;
- IFRS 2 (amendment) - Share-based Payments;
- IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27 - Consolidated and Separate Financial Statements, IAS 28 - Investment in Associates and IAS 31 Interest in Joint Ventures;
- IFRS 8 - Operating Segments;
- IFRIC 12 - Service Concession Arrangements;

- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
- IFRIC 15 - Agreement for the Construction of Real Estate; and
- IFRIC 16 - Hedge of Net Investment in a Foreign Operation.

## 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 6.1 Taxation

#### (a) Current:

Provision for current taxation is based on taxable income at the applicable rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.5% of turnover, whichever is higher.

#### (b) Deferred:

Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax liability is based on the expected tax rates applicable at the time of reversal.

### 6.2 Provisions

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

### 6.3 Trade and other payables

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

### 6.4 Foreign currency translations

Transactions in foreign currencies are translated in Pak Rupees at the rates of exchange approximating those prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange ruling on the balance sheet date.

Exchange differences are included in profit and loss account currently.

### 6.5 Staff retirement benefits - (defined benefit plan)

The Company operates an un-funded gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations. Latest actuarial valuation was conducted on 30 June, 2008 on the basis of the projected unit credit method by an independent Actuary.

### 6.6 Dividend

Dividend to shareholders is recognised as liability in the financial statements in the period in which the dividend is approved.

### 6.7 Borrowing costs

Borrowing costs incurred on finances obtained for acquisition of fixed assets are capitalised upto the date of commissioning of the respective assets. All other borrowing costs are taken to profit and loss account.

### 6.8 Mark-up bearing borrowings

Mark-up bearing borrowings are recognised initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

### 6.9 Property, plant and equipment

Freehold land and buildings are shown at fair value, based on valuations carried-out with sufficient regularity by external independent Valuers, less subsequent amortisation / depreciation. Any accumulated amortisation / depreciation at the date of revaluation is eliminated against the gross carrying amount of asset and the net amount is restated to the revalued amount of asset. The remaining property, plant and equipment are stated at historical cost less accumulated depreciation. Cost of some items of plant & machinery consists of historical cost and exchange fluctuation effects on foreign currency loans capitalised during prior years. Borrowing costs are also capitalised for the period upto the date of commencement of commercial production of the respective plant & machinery, acquired out of the proceeds of such borrowings. Historical cost includes expenditure that is directly attributable to the acquisition of items. Capital work-in-progress is stated at cost.

Freehold land and buildings on freehold land have again been professionally revalued by independent Valuers on 13 June, 2008 on the basis of current market value of freehold land and depreciated market value of buildings on freehold land. Revaluation of remaining operating fixed assets has not been carried-out as the revalued figures of these assets are not expected to be materially different from their carrying values.

Depreciation is taken to profit and loss account applying reducing balance method so as to write-off the depreciable amount of an asset over its remaining useful life at the rates stated in note 18.1. The assets' residual values and useful lives are reviewed at each financial year-end and adjusted if impact on depreciation is significant.



Depreciation on additions to operating fixed assets is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed-off.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of item can be measured reliably. All other repairs and maintenance are charged to income during the financial year in which they are incurred.

Gain / loss on disposal of property, plant and equipment, if any, is taken to profit and loss account.

#### **6.10 Intangible assets and amortisation thereon**

These are stated at cost less accumulated amortisation except assets-in-progress, which are stated at cost. Amortisation is charged to income applying straight-line method to amortise the cost of intangible assets over their estimated useful life. Rate of amortisation is stated in note 19.1.

Gain / loss on retirement / disposal of intangible assets is taken to profit and loss account.

#### **6.11 Assets subject to finance lease**

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets. The related obligation of lease is accounted for as liability. Finance cost is allocated to accounting periods in a manner so as to provide a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

Depreciation is charged at the rates stated in note 18.1 applying reducing balance method to write-off the cost of asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

Finance cost and depreciation on leased assets are charged to income currently.

#### **6.12 Stores, spare parts and loose tools**

These are valued at moving average cost. Items-in-transit are valued at cost accumulated to the balance sheet date.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

The Company reviews the carrying amount of stores and spare parts on a regular basis and provision is made for obsolescence.

### 6.13 Stock-in-trade

Basis of valuation are as follows:

<b>Particulars</b>	<b>Mode of valuation</b>
Raw materials:	
At mills	- At lower of moving average cost and market value.
In transit	- At cost accumulated to the balance sheet date.
Work-in-process	- At manufacturing cost.
Finished goods	- At lower of cost and net realisable value.
Waste	- At contracted rates.

Cost in relation to work-in-process and finished goods consists of prime cost and appropriate production overheads. Prime cost is allocated on the basis of moving average cost.

Net realisable value signifies the selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

### 6.14 Trade debts

Trade debts are carried at original invoice amount less an estimate for doubtful debts based on review of outstanding amounts at the year-end. Bad debts are written-off when identified.

### 6.15 Cash and cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, comprise cash-in-hand and at banks, which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost, except for foreign currency deposits which are carried at fair value.

### 6.16 Revenue recognition

- Local sales through agents are recorded on intimation from agents whereas direct sales are recorded when goods are despatched to customers. Export sales are booked on shipment of goods.
- Return on bank deposits is accounted for on 'accrual basis'.

### 6.17 Financial assets and liabilities

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Company derecognises the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gains or losses on derecognition of financial assets and liabilities are included in profit and loss account currently.

Financial assets are long & short term deposits, long term loans, trade debts and bank balances. These are stated at their normal value or fair value as applicable and reduced by appropriate allowances for estimated irrecoverable amounts, if any.

Financial liabilities are classified according to the contractual agreements entered into. Significant financial liabilities are long term financing, liabilities against assets subject to finance lease, long term deposits, trade & other payables, accrued interest / mark-up and short term borrowings.

#### 6.18 Off setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 6.19 Related party transactions

Sales, purchases and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the Associates, which are on the actual basis.

#### 6.20 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

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

2008	2007		2008	2007
(No. of shares)			(Rupees in thousand)	
14,525,400	14,525,400	ordinary shares of Rs. 10 each fully paid in cash	145,254	145,254
6,274,600	6,274,600	ordinary shares of Rs.10 each issued as fully paid-up by conversion of loans and debentures	62,746	62,746
<u>20,800,000</u>	<u>20,800,000</u>		<u>208,000</u>	<u>208,000</u>

7.1 16,220,010 (2007: 16,220,010) ordinary shares are held by the following Associated Companies at the year-end:

	2008	2007
	(No. of shares)	
- Saif Holdings Ltd.	9,880,000	9,880,000
- GlobeComm (Pvt.) Ltd.	6,340,010	6,340,010
	<u>16,220,010</u>	<u>16,220,010</u>

## 8. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

This represents surplus over book values resulted from the revaluations of freehold land, buildings on freehold land and plant & machinery during the years 1984, 1995, 2004, and 2005 adjusted only by surplus realised on disposal of revalued assets, incremental depreciation arising out of revaluation and deferred taxation.

The Company, as at 13 June, 2008, has again revalued its freehold land and buildings on freehold land. The revaluation exercise has been carried-out by M/s Hamid Mukhtar & Co. (Pvt.) Ltd. (Valuation Consultants, Consulting Engineers, Surveyors & Loss Adjusters), Gulberg, Lahore to replace the carrying amounts of these assets with their market value / depreciated market values. The net appraisal surplus arisen on the latest revaluation aggregating Rs.144.936 million has been credited to this account to comply with the requirements of section 235 of the Companies Ordinance, 1984. The year-end balance has been arrived at as follows:

	Note	2008 (Rupees in thousand)	2007
Balance at beginning of the year		153,383	156,476
Add: surplus arisen on revaluation carried-out during the year	18.4	144,936	0
Less: related deferred taxation		30,498	0
		<u>114,438</u>	<u>0</u>
		267,821	156,476
Less: transferred to accumulated loss on account of incremental depreciation for the year - net of deferred taxation		3,222	3,093
Balance at end of the year		<u>264,599</u>	<u>153,383</u>

**9. LONG TERM FINANCING - Secured**

**9.1** The Company, during the preceding financial year ended 30 June, 2007, had entered into a term finance agreement with The Bank of Punjab (BoP) whereby BoP on 29 May, 2007 had paid Rs.250 million directly to National Bank of Pakistan to fully settle the Company's demand finance liabilities of Rs.194 million and short term cash finance liability of Rs.56 million outstanding as on that date.

**9.2** This finance facility is secured against first pari passu charge on fixed assets of the Company for Rs. 333.334 million. The finance facility carries mark-up at the rate of 3-months KIBOR plus 325 basis points with floor of 11% per annum payable quarterly. The effective mark-up rate charged by BoP, during the current financial year, ranged between 12.84% to 13.42% (2007: 13.02%) per annum. The principal balance of this finance facility is repayable in 20 equal quarterly instalments of Rs.12.500 million commencing August, 2009.

**10. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured**

Particulars	Upto one year	From one to five years	2008	Upto one year	From one to five years	2007
----- Rupees in thousand -----						
Minimum lease payments	37,945	40,301	78,246	38,803	74,415	113,218
Less: finance cost						
-allocated to future periods	6,285	2,511	8,796	9,051	7,646	16,697
-accrued during the year	257	0	257	331	0	331
	6,542	2,511	9,053	9,382	7,646	17,028
	31,403	37,790	69,193	29,421	66,769	96,190
Less: security deposits adjustable on expiry of lease terms	0	5,130	5,130	0	5,000	5,000
Present value of minimum lease payments	31,403	32,660	64,063	29,421	61,769	91,190

**10.1** The Company has entered into lease agreements with First National Bank Modaraba and AlBaraka Islamic Bank to acquire plant & machinery and vehicles. The liabilities under the lease agreements are payable in monthly instalments by May, 2011. These facilities, during the year, carried finance cost at the rates ranging from 12.16% to 12.83% (2007:10.71% to 13.10%) per annum. The Company intends to exercise its option to purchase the leased assets upon completion of the respective lease terms. These lease finance facilities are secured against charge over leased assets, ranking charge over all present and future movable fixed assets of the Company including plant & machinery and equipment and demand promissory note.

**11. LONG TERM DEPOSITS**

These deposits have been received in accordance with the Company's Car Incentive Scheme and against these deposits vehicles have been provided to the employees. These are adjustable after specified periods by transfer of title of vehicles to the respective employees.

**12. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS (Gratuity)**

	2008	2007
	(Rupees in thousand)	
<b>The amount recognised in the balance sheet is as follows:</b>		
Present value of defined benefit obligation	24,314	14,606
Unrecognised actuarial (loss) / gain	(3,975)	53
	<u>20,339</u>	<u>14,659</u>
Balance at end of the year		
Balance at beginning of the year	14,659	15,340
Charge to profit and loss account	10,437	3,911
Payments during the year	(4,757)	(4,592)
	<u>20,339</u>	<u>14,659</u>
Balance at end of the year		
<b>The movement in the present value of defined benefit obligation is as follows:</b>		
Present value of defined benefit obligation	14,606	16,933
Current service cost	9,122	2,334
Interest cost	1,315	1,524
Benefits paid	(4,757)	(4,592)
Actuarial loss / (gain)	4,028	(1,593)
	<u>24,314</u>	<u>14,606</u>
Present value of defined benefit obligation		
<b>Expense recognised in profit and loss</b>		
Current service cost	9,122	2,334
Interest cost	1,315	1,524
Liability charged due to application of IAS 19	0	53
	<u>10,437</u>	<u>3,911</u>

Comparison of present value of defined benefit obligation and experience adjustment on obligation for five years is as follows:

	2008	2007	2006	2005	2004
Present value of defined benefit obligation	<u>24,314</u>	<u>14,606</u>	<u>16,933</u>	<u>14,012</u>	<u>14,209</u>
Experience adjustment on obligation	<u>17%</u>	<u>-11%</u>	<u>19%</u>	<u>0%</u>	<u>-10%</u>

The future contribution rates of this scheme include allowance for deficit and surplus. Projected unit credit method, based on the following significant assumptions, is used for valuation:

	2008	2007
- discount rate	12%	9%
- expected rate of growth per annum in future salaries	11%	8%
- average expected remaining working life time of employees	11 years	09 years

The Company's policy with regard to actuarial gains / losses is to follow the minimum recommended approach under IAS 19 (Employee Benefits).

### 13. TRADE AND OTHER PAYABLES

	Note	2008 (Rupees in thousand)	2007
Creditors		14,055	6,618
Due to an Associated Company [Saif Textile Mills Ltd. (2007: Saif Holdings Ltd.)]		40,123	1,711
Bills payable against raw materials	13.1	0	67,483
Accrued expenses		17,157	13,937
Unclaimed dividends		154	154
		<u>71,489</u>	<u>89,903</u>

13.1 These were secured against the securities as detailed in note 15.

**14. ACCRUED MARK-UP AND INTEREST**

	<b>2008</b>	2007
	<b>(Rupees in thousand)</b>	
Mark-up accrued on:		
- long term financing	<b>8,342</b>	2,943
- short term borrowings	<b>17,615</b>	14,147
Interest accrued on lease finances	<b>284</b>	439
	<b>26,241</b>	17,529

**15. SHORT TERM BORROWINGS - Secured**

Short term cash, trust receipt, running and murabaha finance facilities available from National Bank of Pakistan, United Bank Limited, The Bank of Punjab, First National Bank Modaraba and AlBaraka Islamic Bank aggregate Rs.775 million (2007: Rs.775 million). These facilities, during the year, carried mark-up at the rates ranging from 4.98% to 15.32% (2007:6.72% to 13.34%) per annum payable on quarterly basis. Facilities available for opening letters of credit / guarantee from the aforementioned banks aggregate Rs. 348 million (2007: Rs.348 million) of which the amount aggregating Rs. 281.930 million (2007: Rs.288.261 million) remained unutilised at the balance sheet date. The aggregate facilities are secured against pledge of stock-in-trade, charge on current assets of the Company and lien on documents of title to imported goods. These facilities are expiring on various dates by 28 February, 2009.

**16. TAXATION - Net**

Balance of provision / (advance tax) at beginning of the year	<b>194</b>	(190)
Add: provision made during the year:		
- current	<b>7,194</b>	6,575
- prior years'	<b>14</b>	(309)
	<b>7,208</b>	6,266
	<b>7,402</b>	6,076
Less: income tax paid during the year	<b>(8,249)</b>	(5,882)
Balance of (advance tax) / provision at end of the year	<b>(847)</b>	194



**16.1** In view of available tax losses, the current tax provision represents the minimum tax on turnover for the year due under section 113 of the Income Tax Ordinance, 2001.

**16.2** No numeric tax rate reconciliation is given as the Company is liable for minimum tax.

## 17. CONTINGENCIES AND COMMITMENTS

**17.1** The Company has filed a claim for Rs.268 thousand with the Customs and Central Excise Department in respect of rebate of excise duty already paid for manufacturing of man-made yarn.

**17.2 (a)** National Bank of Pakistan, on behalf of the Company, has issued an inland bank guarantee of Rs.8 million (2007: Rs.8 million) in favour of Sui Northern Gas Pipelines Ltd. (SNGPL). The guarantee is secured against pari passu charge on the Company's fixed assets for Rs. 8 million.

**(b)** AlBaraka Islamic Bank, on behalf of the Company, has also issued a bank guarantee of Rs.3 million (2007: Rs.3 million) in favour of SNGPL. The guarantee is secured against second charge for Rs.5 million on the Company's current assets.

**17.3** Commitments, other than for capital expenditure, against irrevocable letters of credit outstanding at the year-end were for Rs.55.068 million (2007: Rs.48.739 million).

## 18. PROPERTY, PLANT AND EQUIPMENT

	Note	2008 (Rupees in thousand)	2007
Operating fixed assets	18.1	752,160	644,698
Stores held for capital expenditure		0	449
		752,160	645,147

## 18.1 OPERATING FIXED ASSETS - Tangible

PARTICULARS	2008				Rate %	2008				CARRYING AMOUNT AS AT 30 JUNE, 2008
	COST/REVALUATION			Balance as at 30 June, 2008		DEPRECIATION				
	Balance as at 01 July, 2007	Additions / (Disposals)	Revaluation surplus			Balance as at 01 July, 2007	For the year / (on disposals)	Elimination against gross carrying amount	Balance as at 30 June, 2008	
----- Rupees in thousand -----										
<b>OWNED:</b>										
Freehold land	115,900	0	57,800	173,700		0	0	0	0	173,700
Buildings on freehold land										
- Factory	92,740	187	13,892	106,819	10	34,880	6,211	(40,202)	889	105,930
- Non-factory Residential:	25,790	0	14,534	40,324	5	6,393	1,057	(7,284)	166	40,158
- Officers	21,195	0	5,426	26,621	5	3,114	939	(3,942)	111	26,510
- Workers	7,668	0	0	7,668	10	3,282	451	(1,856)	1,877	5,791
	147,393	187	33,852	181,432		47,669	8,658	(53,284)	3,043	178,389
Plant and machinery	501,618	9,337	0	510,955	10	248,052	25,674	0	273,726	237,229
Diesel generators & fuel reservoir	28,408	0	0	28,408	10	20,474	793	0	21,267	7,141
Gas fired power plant	6,462	0	0	6,462	10	869	559	0	1,428	5,034
Electric installations	23,993	0	0	23,993	10	14,494	950	0	15,444	8,549
Equipment & appliances	34,840	1,556	0	36,396	10	17,771	1,746	0	19,517	16,879
Fire extinguishing equipment	1,460	0	0	1,460	10	791	67	0	858	602
Furniture & fixtures	5,965	74	0	6,039	10	2,023	400	0	2,423	3,616
Vehicles	15,280	2,314	0	13,090	20	9,747	1,055	0	7,238	5,852
		(4,504)					(3,564)			
Live-stock	1	0	0	1		0	0	0	0	1
	881,320	13,468	91,652	981,936		361,890	39,902	(53,284)	344,944	636,992
		(4,504)					(3,564)			
<b>LEASED:</b>										
Plant and machinery	122,507	400	0	122,907	10	28,436	9,440	0	37,876	85,031
Gas fired power plant	37,814	0	0	37,814	10	6,617	3,120	0	9,737	28,077
Vehicles	0	2,207	0	2,207	20	0	147	0	147	2,060
	160,321	2,607	0	162,928		35,053	12,707	0	47,760	115,168
	1,041,641	16,075	91,652	1,144,864		396,943	52,609	(53,284)	392,704	752,160
		(4,504)					(3,564)			

## 18.2 OPERATING FIXED ASSETS - Tangible

PARTICULARS	2007			DEPRECIATION				CARRYING AMOUNT AS AT 30 JUNE, 2007
	COST/REVALUATION		Balance as at 30 June, 2007	Rate %	Balance as at 01 July, 2006	For the year / on (disposals) / on transfers	Balance as at 30 June, 2007	
Balance as at 01 July, 2006	Additions / (Disposals) / Transfers							
----- Rupees in thousand -----								
OWNED:								
Freehold land	115,900	0	115,900		0	0	0	115,900
Buildings on freehold land								
- Factory	88,807	3,933	92,740	10	28,630	6,250	34,880	57,860
- Non-factory	25,790	0	25,790	5	5,372	1,021	6,393	19,397
Residential:								
- Officers	21,195	0	21,195	5	2,162	952	3,114	18,081
- Workers	7,668	0	7,668	10	2,795	487	3,282	4,386
	143,460	3,933	147,393		38,959	8,710	47,669	99,724
Plant and machinery	484,181	17,437	501,618	10	220,718	27,334	248,052	253,566
Diesel generators & fuel reservoir	28,408	0	28,408	10	19,592	882	20,474	7,934
Gas fired power plant	6,462	0	6,462	10	248	621	869	5,593
Electric installations	23,942	51	23,993	10	13,441	1,053	14,494	9,499
Equipment & appliances	31,343	3,497	34,840	10	16,018	1,753	17,771	17,069
Fire extinguishing equipment	1,460	0	1,460	10	717	74	791	669
Furniture & fixtures	5,803	162	5,965	10	1,592	431	2,023	3,942
Vehicles	15,049	1,018	15,280	20	9,102	1,324	9,747	5,533
		(1,444)				(1,015)		
		657				336		
Live-stock	1	0	1		0	0	0	1
	856,009	26,098	881,320		320,387	42,182	361,890	519,430
		(1,444)				(1,015)		
		657				336		
LEASED:								
Plant and machinery	122,507	0	122,507	10	17,984	10,452	28,436	94,071
Gas fired power plant	37,814	0	37,814	10	3,151	3,466	6,617	31,197
Vehicles	657	0	0	20	300	36	0	0
		(657)				(336)		
	160,978	0	160,321		21,435	13,954	35,053	125,268
		(657)				(336)		
	1,016,987	26,098	1,041,641		341,822	56,136	396,943	644,698
		(1,444)				(1,015)		

## 18.3 Disposal of vehicles

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain	Sold through negotiation to:
----- (Rupees in thousand) -----						
Toyota Corolla	1,139	843	296	365	69	Mr. Abdul Hameed Khan, employee.
Suzuki Bolan	425	292	133	180	47	Mr. Nasir-ud-Din, Temergara.
Land Cruiser	1,306	1,281	25	45	20	-do-
Toyota Corolla	1,160	714	446	475	29	Mr. Badar-us-Samee, Kohat.
Suzuki Margalla	474	434	40	45	5	Mr. Sarwar Hussain, Islamabad.
	<b>4,504</b>	<b>3,564</b>	<b>940</b>	<b>1,110</b>	<b>170</b>	

18.4 Surplus on each class of asset, as a result of latest revaluation as detailed in note 8, has been determined as follows:

Particulars	Freehold land	Buildings on freehold land				Total
		Factory	Non-factory	Residential		
				Officers	Workers	
----- Rupees in thousand -----						
Cost / revaluation as at 31 May, 2008	115,900	92,927	25,791	21,194	7,668	263,480
Accumulated depreciation to 31 May, 2008	0	40,202	7,284	3,942	3,685	55,113
Book value before revaluation adjustments as at 31 May, 2008	115,900	52,725	18,507	17,252	3,983	208,367
Revalued amounts	173,700	106,819	40,325	26,620	5,839	353,303
Revaluation surplus	<b>57,800</b>	<b>54,094</b>	<b>21,818</b>	<b>9,368</b>	<b>1,856</b>	<b>144,936</b>

**18.5** Had the property, plant and equipment been recognised under the cost model, the carrying amounts of each revalued class of property, plant and equipment would have been as follows:

	Note	2008 (Rupees in thousand)	2007
Freehold land		474	474
Buildings on freehold land			
- Factory		29,939	33,029
- Non-factory		7,127	7,498
Residential:			
- Officers		391	408
- Workers		354	389
		<u>38,285</u>	<u>41,798</u>

**18.6** Depreciation for the year has been apportioned as under:

cost of sales	49,036	52,085
administrative expenses	3,573	4,051
	<u>52,609</u>	<u>56,136</u>

## 19. INTANGIBLE ASSETS - Computer software

Cost at the beginning and end of the year		3,601	3,601
Less: amortisation:			
- at the beginning of the year		3,338	2,618
- charge for the year	19.1	263	720
- at the end of the year		3,601	3,338
Book value at end of the year		<u>0</u>	<u>263</u>

**19.1** Amortisation has been charged to income applying the straight-line method at the rate of 20% per annum.

**20. LONG TERM LOANS - Secured**

	Note	2008 (Rupees in thousand)	2007
Loan to an executive:			
Opening balance	20.1	1,237	1,000
Add: disbursed during the year		300	300
Less: recovered during the year		(150)	(63)
		1,387	1,237
Loans to employees	20.2	1,268	902
		<u>2,655</u>	<u>2,139</u>
Less: current portion grouped under current assets		234	233
		<u>2,421</u>	<u>1,906</u>

**20.1** This includes interest-free loan of Rs. one million, which was advanced to the executive during the financial period ended 30 June, 2005 for construction of house and is secured against his gratuity benefits. It is recoverable in lump sum at the time of retirement by way of adjustment against the gratuity benefits of the executive.

**20.2** These interest-free loans have been advanced for various purposes and are secured against employees' gratuity benefits. These loans, except for nine loans (2007: eight loans), are recoverable in lump sum at the time of retirement by way of adjustment against gratuity benefits of the respective employees.

**20.3** The fair value adjustments as required by IAS 39 (Financial instruments: Recognition and Measurement) arising in respect of staff loans are not considered material and hence not recognised.

**21. DEFERRED TAXATION - Net**

	Note	2008 (Rupees in thousand)	2007
The deferred tax asset comprises of temporary differences arising due to:			
Debit balances arising in respect of:			
- unused tax losses		147,968	115,275
- minimum tax recoverable against normal tax charge in future years		26,739	19,545
	21.1	174,707	134,820
Credit balances arising in respect of :			
- accelerated tax depreciation allowances		(115,232)	(88,893)
- lease finances		(17,887)	(11,927)
		(133,119)	(100,820)
		<u>41,588</u>	<u>34,000</u>

21.1 Deferred tax asset has been recognised based on the projections prepared by the management indicating reasonable probability that taxable profits will be available in the foreseeable future against which the unused tax losses will be utilised.

**22. STORES, SPARE PARTS AND LOOSE TOOLS**

Stores including in transit valuing Rs. Nil (2007: Rs.587 thousand)	13,802	12,689
Spare parts	10,252	10,061
Loose tools	1,302	1,552
	<u>25,356</u>	<u>24,302</u>

**23. STOCK-IN-TRADE**

Raw materials:		
- at mills	119,959	145,482
- in transit	0	98,690
	119,959	244,172
Work-in-process	29,147	28,038
Finished goods	39,496	66,461
	<u>188,602</u>	<u>338,671</u>

23.1 The entire closing stock-in-trade inventory is pledged with commercial banks as security for short term borrowings (note 15).

	2008	2007
	(Rupees in thousand)	
<b>24. TRADE DEBTS</b>		
Unsecured - considered good		
- local	267,681	133,847
Secured		
- export bills	<u>0</u>	<u>5,579</u>
	<u>267,681</u>	<u>139,426</u>
<b>25. LOANS AND ADVANCES</b>		
Current portion of long term loans	234	233
Advances - considered good		
- executives	124	72
- employees	408	376
	532	448
- suppliers	<u>2,134</u>	<u>793</u>
	<u>2,900</u>	<u>1,474</u>
<b>26. DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
Security deposits	5	345
Short term prepayments	<u>839</u>	<u>834</u>
	<u>844</u>	<u>1,179</u>
<b>27. OTHER RECEIVABLES</b>		
Quality claims	47	139
Letters of credit	945	177
Others	<u>456</u>	<u>0</u>
	<u>1,448</u>	<u>316</u>
<b>28. BANK BALANCES</b>		
Cash at banks in current accounts	<u>57</u>	<u>115</u>



**29. SALES**

	Note	2008 (Rupees in thousand)	2007
Own manufactured goods:			
Local			
- yarn		1,168,483	1,052,562
- waste		28,850	22,474
		1,197,333	1,075,036
Export - yarn		1,190	17,290
		1,198,523	1,092,326
Trading activities:			
- yarn		33,191	101,897
- raw materials		206,934	122,779
		240,125	224,676
		1,438,648	1,317,002

**30. COST OF SALES**

Raw materials consumed	30.1	993,027	877,513
Packing materials consumed		25,285	22,057
Salaries, wages and benefits	30.2	94,402	84,415
Power and fuel		119,904	95,132
Repair and maintenance		21,411	18,841
Depreciation		49,036	52,085
Insurance		2,684	1,980
Textile cess		44	44
Doubling charges		2,834	0
		1,308,627	1,152,067
Adjustment of work-in-process			
Opening		28,038	27,499
Closing		(29,147)	(28,038)
		(1,109)	(539)
Cost of goods manufactured		1,307,518	1,151,528
Cost of yarn purchased		36,457	97,956
Adjustment of finished goods			
Opening stock		66,461	32,109
Closing stock		(39,496)	(66,461)
		26,965	(34,352)
		1,370,940	1,215,132

**30.1 Raw materials consumed**

	Note	2008 (Rupees in thousand)	2007
Opening stock		244,172	247,342
Add:			
Purchases (for manufacturing)		667,496	750,701
Cost of raw materials sold		201,116	122,369
Insurance		199	1,133
		868,811	874,203
		1,112,983	1,121,545
Less: closing stock		119,959	244,172
		993,024	877,373
Add: cotton cess		3	140
		993,027	877,513

**30.2** These include Rs.6,907 thousand (2007: Rs.2,588 thousand) in respect of staff retirement benefits - gratuity.

**31. DISTRIBUTION COST**

Freight and forwarding		2,190	2,202
Travelling and conveyance		151	58
Salaries and benefits	31.1	4,031	2,825
Commission		719	2,741
Export expenses		285	413
Rent, rates and utilities		119	111
Communication		210	177
Insurance		0	197
Advertisement		25	0
Others		2	0
		7,732	8,724

**31.1** These include Rs.1,469 thousand (2007: Rs.551 thousand) in respect of staff retirement benefits - gratuity

**32. ADMINISTRATIVE EXPENSES**

	Note	2008 (Rupees in thousand)	2007
Directors' remuneration and fees		2,723	2,718
Salaries and benefits	32.1	12,629	10,954
Travelling and conveyance:			
- directors		328	127
- others		761	930
Rent, rates and taxes		3,132	2,655
Entertainment and guest house expenses		654	699
Communication		1,433	1,546
Printing and stationery		1,746	1,277
Utilities		723	743
Insurance		1,834	1,539
Vehicles' running		2,393	2,468
Repair and maintenance		617	765
Advertisement		54	38
Subscription		177	166
Newspapers & periodicals		24	30
Depreciation		3,573	4,051
Amortisation of intangible assets		263	720
Auditors' remuneration:			
- statutory audit		175	150
- short provision for the preceding year		25	0
- half yearly review		61	55
- certification charges		10	0
- consultancy and tax services		135	135
		406	340
Legal and professional (other than Auditors')		478	462
Donations	32.3	180	180
Others		228	238
		<b>34,356</b>	<b>32,646</b>

**32.1** These include Rs.2,061 thousand (2007: Rs.772 thousand) in respect of staff retirement benefits - gratuity.

**32.2** The Company, during the year, has shared administrative expenses aggregating Rs.1.838 million (2007: Rs.1.768 million) with its Associates on account of proportionate expenses of the combined offices at Karachi and Lahore. These expenses have been booked in the respective heads of account.

**32.3** This represents amount donated to Saifullah Foundation for Sustainable Development (a social welfare society) administered by the following directors of the Company:

- |                               |                               |
|-------------------------------|-------------------------------|
| - Mr. Javed Saifullah Khan    | - Mr. Osman Saifullah Khan    |
| - Begum Kulsum Saifullah Khan | - Mr. Jehangir Saifullah Khan |

**33. FINANCE COST**

	2008	2007
	(Rupees in thousand)	
Mark-up on:		
- long term financing [net of mark-up subsidy aggregating Rs.851 thousand (2007: Rs. Nil)]	31,964	26,702
- short term borrowings	63,468	53,241
Lease finance charges	8,390	12,793
Interest on workers' (profit) participation fund	0	31
Exchange fluctuation loss - net	7,216	1,328
Bank and other charges	1,354	2,024
	<u>112,392</u>	<u>96,119</u>

**34. OTHER OPERATING INCOME**

Sale of scrap [net of sales tax - Rs.65 thousand (2007:Rs.21 thousand)]	432	289
Gain on disposal of vehicles	170	461
Unclaimed balances written-back	71	297
	<u>673</u>	<u>1,047</u>

**35. LOSS PER SHARE**

Loss after taxation attributable to ordinary shareholders	<u>(55,221)</u>	<u>(22,864)</u>
	<b>No. of shares</b>	
Weighted average number of shares in issue during the year	<u>20,800,000</u>	<u>20,800,000</u>
	<b>Rupees</b>	
Loss per share	<u>(2.65)</u>	<u>(1.10)</u>

**35.1** There were no convertible dilutive potential ordinary shares outstanding on 30 June, 2008 and 2007.

## 36. FINANCIAL INSTRUMENTS

Particulars	Interest / mark-up bearing				Non-interest / mark-up bearing				Total		Credit risk	
	Maturity upto one year	Maturity after one year	Sub-total 2008	Sub-total 2007	Maturity upto one year	Maturity after one year	Sub-total 2008	Sub-total 2007	2008	2007	2008	2007
----- Rupees in thousand -----												
<b>Financial assets:</b>												
Long term loans	0	0	0	0	234	2,421	2,655	2,139	2,655	2,139	0	0
Long term deposits	0	0	0	0	0	1,137	1,137	1,137	1,137	1,137	1,137	1,137
Trade debts	0	0	0	0	267,681	0	267,681	139,426	267,681	139,426	267,681	139,426
Short term deposits	0	0	0	0	5	0	5	345	5	345	5	345
Bank balances	0	0	0	0	57	0	57	115	57	115	57	115
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>267,977</b>	<b>3,558</b>	<b>271,535</b>	<b>143,162</b>	<b>271,535</b>	<b>143,162</b>	<b>268,880</b>	<b>141,023</b>
<b>Financial liabilities:</b>												
Long term financing	0	250,000	250,000	250,000	0	0	0	0	250,000	250,000		
Liabilities against assets subject to finance lease	31,403	32,660	64,063	91,190	0	0	0	0	64,063	91,190		
Long term deposits	0	0	0	0	0	1,526	1,526	1,454	1,526	1,454		
Trade and other payables	0	0	0	0	71,489	0	71,489	89,903	71,489	89,903		
Accrued interest / mark-up	0	0	0	0	26,241	0	26,241	17,529	26,241	17,529		
Short term borrowings	501,734	0	501,734	426,308	0	0	0	0	501,734	426,308		
<b>Total</b>	<b>533,137</b>	<b>282,660</b>	<b>815,797</b>	<b>767,498</b>	<b>97,730</b>	<b>1,526</b>	<b>99,256</b>	<b>108,886</b>	<b>915,053</b>	<b>876,384</b>		
Net financial assets / (liabilities)	(533,137)	(282,660)	(815,797)	(767,498)	170,247	2,032	172,279	34,276	(643,518)	(733,222)		
<b>Off balance sheet items:</b>												
Letters of credit	0	0	0	0	55,068	0	55,068	48,739	55,068	48,739		
Guarantees	0	0	0	0	11,000	0	11,000	11,000	11,000	11,000		
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>66,068</b>	<b>0</b>	<b>66,068</b>	<b>59,739</b>	<b>66,068</b>	<b>59,739</b>		

The effective interest / mark-up rates for the monetary financial liabilities are mentioned in respective notes to the financial statements.

## 36.1 Risk management

## (a) Foreign exchange risk

Foreign currency risk arises where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks are monitored by the management and, if necessary, are covered through forward foreign exchange contracts. However, no foreign forward exchange contracts were outstanding at the year-end.

## (b) Concentration of credit risk

Credit risk represents the risk of loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Company's credit risk is primarily at

trade debts. To reduce the exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision, if required, against those balances considered doubtful of recovery.

**(c) Capital risk management**

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

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the shareholders or issue new shares.

**(d) Liquidity risk**

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for the new requirements.

**(e) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Company usually borrows funds at fixed and market based rates and as such the risk is minimised.

**36.2 Fair values of financial assets and liabilities**

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values; however, staff loans have been valued at their original cost less repayments. Fair value is determined on the basis of objective evidence at each reporting date.

**37. TRANSACTIONS WITH RELATED PARTIES**

The Company has related party relationship with its Associated Companies, employee benefits plan, its directors and key management personnel. Transactions with related parties are carried-out on arm's length basis. There were no transactions with key management personnel other than under the terms of employment. Amounts due from and to related parties are shown under receivables and payables and remuneration of key management personnel is disclosed in note 38. Other significant transactions with Associated Companies during the year were as follows:

	2008	2007
	(Rupees in thousand)	
Sale of:		
- goods and services	776,392	558,167
- fixed assets	0	304
Purchase of goods and services	276,761	414,775

### 38. REMUNERATION OF DIRECTORS AND EXECUTIVES

Particulars	Director		Executives	
	2008	2007	2008	2007
	----- Rupees in thousand -----			
Managerial remuneration	2,700	2,700	3,981	5,845
Retirement benefits	0	0	333	493
Medical expenses reimbursed	11	15	130	191
	<b>2,711</b>	<b>2,715</b>	<b>4,444</b>	<b>6,529</b>
Number of persons	1	1	3	4

**38.1** Meeting fee of Rs.3 thousand (2007: Rs.3 thousand) was paid to two (2007: two) non-executive directors during the year; further, Rs.9 thousand were paid to executive directors during the year under this head (2007: Rs. Nil).

### 39. CAPACITY AND PRODUCTION

	2008	2007
	(Figures in thousand)	
No. of spindles installed	44	44
No. of spindles shifts worked	47,131	47,990
Rated capacity at 20's count	Kgs	17,771
Actual production 1,097 Shifts (2007:1,094 Shifts)	Kgs	5,783
Actual production converted into 20's count	Kgs	18,897

It is difficult to describe precisely the production capacity in textile spinning industry since it fluctuates widely depending on various factors, such as count of yarn spun, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted in a particular year.

**40. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue on 09 October, 2008 by the board of directors of the Company.

**41. FIGURES**

- Figures in the financial statements have been rounded-off to the nearest thousand Rupees except stated otherwise.
- Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no significant rearrangements and reclassifications have been made in these financial statements.

**JAVED SAIFULLAH KHAN**  
Chairman/Chief Executive

**MRS. HOOR YOUSAFZAI**  
Director



**PROXY FORM**

I/we \_\_\_\_\_

of \_\_\_\_\_

a Member (s) of **KOHAT TEXTILE MILLS LIMITED** and holder of \_\_\_\_\_

Ordinary Shares, do hereby appoint \_\_\_\_\_

of \_\_\_\_\_

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

of \_\_\_\_\_

a member of **KOHAT TEXTILE MILLS LIMITED**, vide Registered Folio No. \_\_\_\_\_ And/or

CDC participant I.D. No. \_\_\_\_\_ And Sub Account No. \_\_\_\_\_

As my/our proxy to at on my/our behalf at the 42nd Annual General Meeting of the Company to be held on 31st October, 2008

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2008

**Signature**

Affix Revenue Stamp
---------------------------

(Signature should agree with the Specimen  
Signature registered with the Company).**NOTES:**

1. No proxy shall be valid unless it is duly stamped with a revenue stamp worth Five Rupees.
  2. In the case of Bank or Company, the proxy form must executed under its common seal and signed by its authorised person.
  3. If this proxy form is signed under a power of attorney or other authority then a notarially certified copy of that power of attorney/authority must be deposited alongwith this proxy form.
  4. This form of proxy duly completed must be deposited at the Registered office of Company at least 48 hours before the meeting.
  5. Individual CD Account holders shall produce his/ her original National Identity Card or Passport, account and participant's ID # to prove his/ her identity. A corporate member from CDC must submit the board of directors' resolution or power of attorney and the specimen signature of the nominee, attending meeting.
-