

Annual Report

07



NAGINA COTTON MILLS LTD.

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Shaikh Enam Ellahi	Chairman
Mr. S.M. Yusuf	
Mr. Shahzada Ellahi Shaikh	
Mr. Shaukat Ellahi Shaikh	
Mr. Khawaja Muhammad Ali	
Mr. Shafqat Ellahi Shaikh	
Mr. Munawar Iqbal	

MANAGING DIRECTOR (Chief Executive)

Mr. Shaukat Ellahi Shaikh

AUDIT COMMITTEE

Mr. Shaikh Enam Ellahi	Chairman
Mr. Shahzada Ellahi Shaikh	Member
Mr. Shafqat Ellahi Shaikh	Member
Mr. Syed Mohsin Gilani	Secretary

CHIEF FINANCIAL OFFICER (CFO)

Mr. Tariq Zafar Bajwa

CORPORATE SECRETARY

Mr. Syed Mohsin Gilani

AUDITORS

Messrs M. Yousuf Adil Saleem & Co.,
Chartered Accountants,
Cavish Court, A-35, Block 7 & 8 KCHSU
Shahrah-e-Faisal,
Karachi.

REGISTERED OFFICE

2nd Floor, Shaikh Sultan Trust Bldg. No.2
26, Civil Lines, Beaumont Road,
Karachi - 75530

MILLS

Aminabad, A-16, S.I.T.E.,
National Highway,
Kotri.

NOTICE OF MEETING

40th Annual General Meeting of NAGINA COTTON MILLS LTD. will be held at the Registered Office of the Company, 2nd Floor, Shaikh Sultan Trust Bldg. No.2, 26, Civil Lines, Beaumont Road, Karachi - 75530 on Wednesday the 31st October, 2007 at 3:00 p.m. to transact the following business:-

1. To confirm minutes of the 39th Annual General Meeting held on 31st October, 2006.
2. To receive and adopt audited accounts of the Company for the year ended on 30th June, 2007 together with the Directors' and Auditors' reports thereon.
3. To approve dividend on ordinary shares as recommended by the Directors.
4. To approve payment of 5th dividend and Redemption amount on 13% Redeemable Cumulative Preference Shares.
5. To appoint auditors and to fix their remuneration.
6. To transact any other ordinary business with the permission of the Chair.

By Order of the Board

A handwritten signature in black ink, appearing to read "Syed Mohsin Gilani".

Syed Mohsin Gilani
Corporate Secretary

September 25, 2007

NOTES:

1. The share transfer books of the Company will be closed from Wednesday the 24th October, 2007 to Wednesday the 31st October, 2007 (both days inclusive). Valid transfer(s) received in order by our Share Registrars, M/s. Hameed Majeed Associates (Pvt.) Ltd., 5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi, by the close of business on Tuesday, the 23rd October, 2007 will be in time to be passed for payment of dividend to the transferee(s).
2. A member entitled to attend and vote at the general meeting is entitled to appoint another member as proxy. Proxies, in order to be effective, must be received at the Company's registered office not less than forty eight (48) hours before the time of meeting. Account and sub-account holders of the Central Depository System appointing proxies must attach attested copy of their National Identity Card with the proxy form.
3. Account holders and sub-account holders, holding book entry securities of the Company in CDS of Central Depository Co. of Pakistan Ltd., who wish to attend the Annual General Meeting are requested to please bring original National Identity Card with copy thereof duly attested by their Bankers for identification purpose.
4. In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.
5. Shareholders are requested to promptly notify the company of any change in their address.

Vision:

To strive for excellence through commitment, integrity, honesty and team work.

Mission:

The mission of company is to operate state of the art spinning machinery capable of producing high quality carded and combed, cotton, core spun and blended yarn for knitting and weaving.

The company will conduct its operations prudently assuring customer satisfaction and will provide profits and growth to its shareholders through;

- Providing quality products and services to our customers mainly engaged in the manufacturing of textile products.
- Manufacturing of cotton, core spun and blended yarn as per the customers' requirements and market demand.
- Exploring the global market with special emphasis on Europe and USA.
- Keeping pace with the rapidly changing technology by continuously balancing, modernization and replacement (BMR) of plant and machinery.
- Enhancing the profitability by improved efficiency and cost controls.
- Recruiting, developing, motivating and retaining the personnel having exceptional ability and dedication by providing them good working conditions, performance based compensation, attractive benefit program and opportunity for growth.
- Protecting the environment and contributing towards the economic strength of the country and function as a good corporate citizen.

Director's Report

*IN THE NAME OF ALLAH THE MOST GRACIOUS
THE MOST BENEVOLENT THE MOST MERCIFUL*

The Directors have the pleasure to present 40th Annual Report of the Company together with audited accounts and auditors' report thereon for year ended June 30, 2007. Comparative figures for the previous year ended 30th June, 2006 are included for comparison.

During the year 11,157,887 Kgs. (2005-06: 10,884,903 Kgs.) of yarn was spun. 11,276,217 Kgs. (2005-06: 10,938,717 Kgs.) yarn was sold. Sales value of yarn amounted to Rs. 1,454,100,665/= (2005-06: Rs. 1,348,316,306/=).

Distribution costs were Rs. 24,149,384/= (2005-06: Rs. 20,211,735/=) and were 1.58% of sales (2005-06: 1.41% of sales). Administrative expenses at Rs. 43,084,779/= are 2.82% of sales (2005-06: Rs. 45,377,915/= or 3.18% of sales) and Workers Profit Participation Fund at Rs. 2,986,504/= is 0.20% of sales (2005-06: Rs. 1,879,293/= is 0.13% of sales). Workers Welfare Fund is Rs. 1,180,995/= . Share of Profit from Associated undertakings is Rs. 21,315,271/= . Other income amounted to Rs. 15,525,685/= or 1.02% of sales (2005-06: Rs. 4,157,529/= or 0.29% of sales).

Finance costs are Rs. 74,002,207/= or 4.85% of sales (2005-06: Rs. 65,433,317/= or 4.58% of sales).

Gross profit amounts to 10.70% of sales (2005-06: 10.51% of sales). Profit before taxation amounts to Rs. 54,882,225/= or 3.59% of sales (2005-06: Rs. 33,121,456/= or 2.32% of sales). After providing Rs. 7,700,000/= or 0.50% of sales (2005-06: Rs. 7,200,000/=) for current taxes and deferred tax of Rs. 4,000,000/= (2005-06: Rs. 4,300,000/=), net after tax profit for the year, amounts to Rs. 43,182,225/= or 2.83% of sales (in 2005-06: Rs. 21,621,456/= or 1.51% of sales). Earning per ordinary share amounts to Re. 1.52 (2005-06: Re. 0.52) per ordinary share.

According to final figures issued by the Pakistan Cotton Ginners Association, for the Crop year 2006-07, Kapas (seed cotton) arrivals at the Ginneries amounted to 12,410,620 lint equivalent local weight bales (2005-06: 12,394,789 lint equivalent bales) Seed Cotton arrivals for 2006-07 crop are 0.13% higher than previous year.

The Directors have the pleasure to recommend payment of Dividend @ 15% i.e. Re. 1/50 (Rupee One & paisas fifty only) for each ordinary share of Rs. 10/00 for the year ended June 30, 2007.

Dividend will be paid to the shareholders whose names appear in the register of members on Wednesday the 24th October, 2007.

Associated Company, M/s. ELLCOT SPINNING MILLS LTD., have earned after tax profit of Rs. 63,926,145/=, (2005-06: Rs. 16,649,169/=). Ellicot Board have recommended payment of Cash Dividend @ 20% i.e. Rs. 2/= (Rupees Two only).

According to press reports, Government of Pakistan have set target for 2007-08 Cotton crop at 14.14 million local weight bales. According to the Pakistan Cotton Ginners Association, for 2007-08 season *Kapas* (seed cotton) arrivals upto September 15, 2007 amounts to 1,012,817 lint equivalent bales (2006-07: 1,103,264 bales). However, Raw Cotton prices in Pakistan will depend on the policy of the Government of Pakistan.

One of the risk factors for Spinning Sector is the pattern of Raw Cotton business in Pakistan. Raw Cotton for full year's consumption has to be purchased, essentially in three months. If the prices fall, as happened in financial year 2003-04, large scale losses can occur.

The Company's business in the current year (2007-08) so far, has been satisfactory and the Directors believe that 2007-08 will be another profitable year.

In the light of the company's overall objectives, the Board of Directors regularly reviews the company's strategic direction, annual plans and performance targets set for the business. The Board is committed to maintain the high standards of good corporate governance.

There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.

The financial statements, prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity. Company has maintained proper books of accounts.

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and non-applicability, if any, has been adequately disclosed.

System of internal control is sound in design and has been effectively implemented and monitored.

There is no doubt about the company's ability to continue as a going concern. Operating and financial data and key ratios of last 10 years are annexed.

During 2006-2007, trades in the ordinary shares of the Company were not carried out by the CFO, Company Secretary, Directors, their spouses and minor children. However, one Director Mr. Shaikh Enam Ellahi, and spouse of Chief Executive (Mrs. Mona Shaukat) purchased 52,200 (Fifty two thousand two hundred) and 3,000 (three thousand) 13% Redeemable Preference shares of the Company.

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director is as follows:-

<u>S #</u>	<u>Name</u>	<u>Attended</u>
1.	Mr. Shaikh Enam Ellahi	4 (four)
2.	Mr. Shahzada Ellahi Shaikh	4 (four)
3.	Mr. S. M. Yusuf	4 (four)
4.	Mr. Shaukat Ellahi Shaikh	4 (four)
5.	Mr. Shafqat Ellahi Shaikh	3 (three)
6.	Mr. Munawar Iqbal	2 (two)
7.	Mr. Khawaja Muhammad Ali	3 (three)

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

The statements of shareholdings, in Form 34 and the form prescribed in Listing Regulations, as at June 30, 2007 are annexed.

The retiring auditors, Messrs. M. Yousuf Adil Saleem & Co., Chartered Accountants, Karachi being eligible, have offered themselves for re-appointment. The Audit Committee has recommended their re-appointment as auditors for the year 2007-2008.

The continued good results have been possible due to continued diligence and devotion of the Staff and workers of the Company and the continued good human relations at all levels deserve acknowledgement. The Directors also wish to place on record their thanks to the Bankers for their continued support to the Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Shaukat Ellahi Shaikh".

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

September 25, 2007

ATTENTION

All the shareholders of M/s. Nagina Cotton Mills Ltd., are hereby informed that M/s. Hameed Majeed Associates (Pvt.) Ltd., have been appointed as Share Registrars of M/s. Nagina Cotton Mills Ltd., with effect from October 1, 2007. They may be contacted at:

5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi
Tel # 021-2412754, 2411474
Fax # 021-2424835

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the code of corporate governance contained in listing regulations of Karachi and Lahore 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 the representation of independent non-executive directors and directors representing minority interests on its board of directors. At present there are five non executive directors on the Board, including two directors representing minority shareholders.
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 a NBF. None of the Directors are or were member of any Stock Exchange.
4. No casual vacancy occurred in the Board during the year.
5. The business of the Company is conducted in accordance with the 'Statement of Ethics and Business Practice signed by all the directors and employees.
6. The business operations of the Company are carried out in accordance with the Company's vision/mission statement, overall corporate strategy and significant policies. 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 agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. No specific orientation course was held during the year. However, the management continue to apprise and familiarize with changes in law to discharge their duties and responsibilities.

10. The CFO, Company Secretary and Head of Internal Audit have executed their responsibilities pursuant to the approved appointment by the Board 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 fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The audit committee as formed by the Board is fully functional. The committee comprises three members, all of whom are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.
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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

for & on behalf of the Board



SHAUKAT ELLAHI SHAIKH
Mg. Director (Chief Executive)
NIC NO. 35202-2529098-5

September 25, 2007

OPERATING FINANCIAL & INVESTMENT RATIOS AS ON 30TH JUNE:

		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Cost of sales as % of sales	%	89.30	89.49	85.48	93.13	88.54	82.72	83.55	75.79	85.34	87.86
Gross profit as % of sales	%	10.70	10.51	14.52	6.87	11.46	17.28	16.45	24.21	14.66	12.14
Operating profit as % of sales	%	6.03	5.79	9.48	3.60	* 9.45	14.28	14.88	21.44	12.91	13.50
Net profit after tax as % of sales	%	2.83	1.51	7.05	2.18	4.58	6.48	6.76	11.01	3.78	3.04
Share holders' equity (millions)	Rs.	560.98	682.25	517.40	597.39	592.38	624.00	308.23	272.17	164.82	140.77
Pre-tax profit to equity	%	9.78	4.85	20.15	8.25	13.37	16.04	33.56	60.46	35.38	29.16
Sales to Capital employed ratio		1.75	1.40	1.53	2.21	1.64	1.32	2.27	2.26	2.92	2.17
Gross profit to Capital employed	%	18.72	14.74	22.15	15.25	18.86	22.80	37.31	54.80	42.77	26.40
Pre-tax profit to Capital employed	%	6.28	3.24	13.88	6.53	9.47	10.41	19.14	32.51	15.04	10.07
Earning per ordinary share Pre-tax	Rs.	2.14	1.14	4.94	0.95	2.55	5.35	5.53	8.80	3.12	4.39
Dividend to Capital:											
Cash	%	15.00	8.80	20.00	15.00	11.00	15.00	25.00	10.00	20.00	10.00
Bonus / Specie Dividend	%	-	20.00	-	-	40.00	-	-	100.00	-	-
Break up value per ordinary share	Rs.	23.53	30.02	19.66	19.00	18.74	20.44	16.48	14.56	17.63	15.06
Debt equity ratio		34.47	32.70	31.08	20.90	29.20	35.09	42.96	46.22	57.48	65.47
Current ratio		1.57	1.33	1.45	1.85	2.17	1.75	1.05	1.37	1.00	1.04
Acid ratio		0.93	0.73	0.66	1.00	1.60	1.27	0.73	0.89	0.42	0.85
Total Debts to total assets	%	53.66	55.49	56.20	13.98	21.63	55.73	66.96	63.90	78.00	83.00
Stocks as % of sales	%	12.12	19.33	24.38	12.12	8.30	12.28	8.33	7.92	17.39	9.05

Pattern of Shareholding
As at 30th June, 2007

S #	Name	Total Shares	%
1)	<u>ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES</u>		
i)	M/S. MONELL (PVT) LIMITED	20,900	0.11
ii)	M/S. ARH (PVT) LIMITED	1,609,642	8.61
iii)	M/S. ELLAHI INTERNATIONAL (PVT) LIMITED	1,400,000	7.49
2)	<u>NIT and ICP</u>		
i)	NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	5,170	0.03
ii)	INVESTMENT CORPORATION OF PAKISTAN	1,430	0.01
3)	<u>DIRECTORS, CEO AND THEIR SPOUSE AND MINOR CHILDREN</u>		
i)	MR. SHAIKH ENAM ELLAHI	401,009	2.14
ii)	MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
iii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
iv)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
v)	MRS. HUMAIRA SHAHZADA	4,248	0.02
vi)	MRS. MONA SHAUKAT	4,248	0.02
vii)	MRS. SHAISTA SHAFQAT	4,248	0.02
viii)	MR. MUNAWAR IQBAL	2	0.00
ix)	MR. S.M. YUSUF	1,100	0.01
x)	MR. KHAWAJA MUHAMMAD ALI	500	0.00
4)	<u>EXECUTIVES</u>	Nil	Nil
5)	<u>PUBLIC SECTOR COMPANIES & CORPORATIONS</u>		
i)	NATIONAL DEVELOPMENT FINANCE CORPORATION	7,160	0.04
ii)	PAKISTAN INDUSTRIAL CREDIT & INVESTMENT CORP.	290,600	1.55
iii)	PAKISTAN KUWAIT INVESTMENT COMPANY (PVT) LTD.	66,000	0.35
iv)	STATE LIFE INSURANCE CORP. OF PAKISTAN	318,658	1.70
6)	<u>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS</u>		
i)	CDC-TRUSTEE FAYSAL BALANCED GROWTH FUND	72,000	0.39
	GENERAL PUBLIC (968 Shareholders)	1,029,605	5.51
	Shareholders of the Company 988	18,700,000	100.00
7)	<u>SHAREHOLDERS HOLDING 10% OR MORE</u>		
i)	MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
ii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
iii)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96



M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

UAN: +92 (0) 21 111-55-2626
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Web: www.deloitte.com

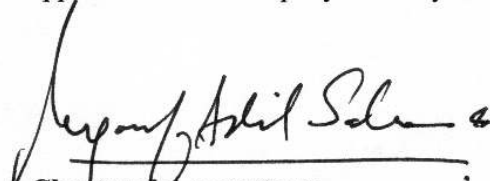
**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF
COMPLIANCE WITH BEST PRACTICES OF CODE OF
CORPORATE GOVERNANCE**

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 **NAGINA COTTON MILLS LIMITED** to comply with the Clause XIV of the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the Lahore Stock Exchange 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 the 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 controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2007.


Chartered Accountants
Karachi
Date: 25th September 2007

AUDITORS' REPORT TO THE MEMBERS

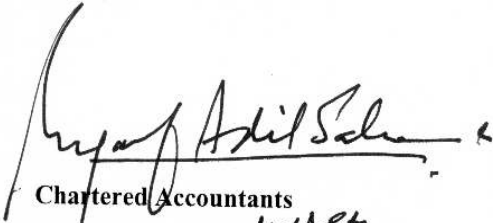
We have audited the annexed balance sheet of **NAGINA COTTON MILLS LIMITED** as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a.* in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b.* in our opinion :
 - i.* the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of 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 respectively give a true and fair view of the state of the company's affairs as at June 30, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and
- d. in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



Chartered Accountants

Karachi

Dated : 25 September 2007

BALANCE SHEET AS AT JUNE 30, 2007

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
SHARE CAPITAL AND RESERVES			
Authorised share capital	3	<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid up			
Ordinary shares	3	187,000,000	187,000,000
Preference shares	3	120,930,000	120,930,000
Capital reserves	4	133,034,417	133,034,417
Unappropriated profit		120,013,224	241,287,204
		<u>560,977,641</u>	<u>682,251,621</u>
NON-CURRENT LIABILITIES			
Long term financing	5	243,967,783	269,703,349
Liabilities against assets subject to finance lease	6	2,614,752	5,124,486
Deferred liabilities	7	65,694,138	62,489,575
CURRENT LIABILITIES			
Trade and other payables	8	76,574,736	81,301,785
Short term bank borrowings	9	199,621,578	358,961,298
Current portion of non-current liabilities	10	48,477,455	56,595,739
Profit / mark-up payable	11	12,637,840	16,499,837
		<u>337,311,609</u>	<u>513,358,659</u>
CONTINGENCIES AND COMMITMENTS			
	12	-	-
		<u>1,210,565,923</u>	<u>1,532,927,690</u>

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



Shahzada Ellahi Shaikh
Director

September 25, 2007

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	600,722,138	658,546,519
Investment properties	14	18,174,106	7,756,813
Long term investments	15	134,532,720	256,339,808
Long term deposits		2,477,900	2,443,500
CURRENT ASSETS			
Stores and spares	16	23,790,768	22,140,671
Stock in trade	17	185,146,611	276,179,637
Trade debts	18	166,931,092	165,128,800
Advances	19	11,966,674	13,743,806
Short term prepayments		427,866	939,814
Other receivables	20	12,765,098	18,188,038
Other financial asset	21	45,205,014	-
Cash and bank balances	22	8,425,936	111,520,284
		454,659,059	607,841,050
		1,210,565,923	1,532,927,690


Shaukat Ellahi Shaikh
 Mg. Director (Chief Executive)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 Rupees	2006 Rupees
Sales - net	23	1,527,037,681	1,429,084,237
Cost of goods sold	24	<u>(1,363,592,543)</u>	<u>(1,278,818,656)</u>
Gross profit		163,445,138	150,265,581
Other income	25	<u>15,525,685</u>	<u>4,157,529</u>
		178,970,823	154,423,110
Distribution cost	26	(24,149,384)	(20,211,735)
Administrative expenses	27	(43,084,779)	(45,377,915)
Workers' profit participation fund		(2,986,504)	(1,879,293)
Workers Welfare Fund		(1,180,995)	-
Finance cost	28	(74,002,207)	(65,433,317)
Share of profit from associated undertakings		<u>21,315,271</u>	<u>11,600,606</u>
Profit before taxation		54,882,225	33,121,456
Provision for taxation	29		
Current		<u>7,700,000</u>	<u>7,200,000</u>
Deferred		<u>4,000,000</u>	<u>4,300,000</u>
		<u>(11,700,000)</u>	<u>(11,500,000)</u>
Profit for the year		<u><u>43,182,225</u></u>	<u><u>21,621,456</u></u>
Earnings per share - Basic and diluted	30	<u><u>1.52</u></u>	<u><u>0.52</u></u>

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



Shahzada Ellahi Shaikh
Director

September 25, 2007



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2007

	<i>2007</i> <i>Rupees</i>	<i>2006</i> <i>Rupees</i>
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	54,882,225	33,121,456
Adjustments for :		
Depreciation	66,027,492	61,813,728
Provision for gratuity	5,569,231	5,201,047
(Gain) / loss on disposal of property, plant and equipment	(340,421)	327,539
Unrealized gain on revaluation of investment	(205,014)	-
Share of profit from associated undertakings	(21,315,271)	(11,600,606)
Finance cost	74,002,207	65,433,317
	<u>178,620,449</u>	<u>154,296,481</u>
Changes in working capital		
Decrease / (increase) in current assets		
Stores and spares	(1,650,097)	(1,658,455)
Stock in trade	91,033,026	2,964,358
Assets held for sale	-	1,950,000
Trade debts	(1,802,292)	(74,621,447)
Advances	6,133,725	10,594,172
Trade deposits and short term prepayments	511,948	213,264
Other receivables	5,422,940	3,268,464
Decrease in current liabilities		
Trade and other payables	(4,727,049)	(18,410,714)
	<u>94,922,201</u>	<u>(75,700,358)</u>
Cash generated from operations	273,542,650	78,596,123
Financial charges paid	(77,864,205)	(59,462,833)
Payment of gratuity	(6,364,668)	(6,498,356)
Tax paid	(12,056,593)	(10,942,213)
Net cash from operating activities	<u>177,257,184</u>	<u>1,692,721</u>

B. CASH FLOWS FROM INVESTING ACTIVITIES

Sale proceeds from disposal of property, plant and equipment	858,000	2,020,000
Fixed capital expenditure	(19,137,982)	(149,642,057)
Long term deposit	(34,400)	(1,473,960)
(Purchase) / sale of investment held for trading	(45,000,000)	3,005,000
Dividend received	9,895,493	13,193,990
Net cash used in investing activities	<u>(53,418,889)</u>	<u>(132,897,027)</u>

2007
Rupees

2006
Rupees

C. CASH FLOWS FROM FINANCING ACTIVITIES

Redemption of redeemable capital	-	(4,639,228)
Long term loan obtained	7,400,000	136,774,667
Repayment of long term loans	(41,464,337)	(41,464,340)
Repayment of liabilities against assets subject to finance lease	(2,299,247)	(1,076,267)
Short term finance-net	(150,572,363)	145,746,129
Payment of dividend	(31,229,339)	(49,212,210)
Net cash (used in) / from financing activities	<u>(218,165,286)</u>	<u>186,128,751</u>
Net (decrease) / increase in cash and cash equivalent (A+B+C)	(94,326,991)	54,924,445
Cash and cash equivalent at the beginning of the year	<u>78,856,077</u>	<u>23,931,632</u>
Cash and cash equivalent at the end of the year	<u>(15,470,914)</u>	<u>78,856,077</u>
<i>Cash and cash equivalent</i>		
Cash and bank balances	8,425,936	111,520,284
Short term running finances and book overdraft	(23,896,850)	(32,664,207)
	<u>(15,470,914)</u>	<u>78,856,077</u>

Non cash transactions

Additions to property plant and equipment amounting to Rs.8,659,194 /- (2006: Rs.8,500,000/-) transferred from Capital Work in Progress.

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



Shahzada Ellahi Shaikh
Director

September 25, 2007



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2007

	<i>Issued, subscribed and paid-up capital</i>	<i>Preference shares</i>	<i>Capital reserve</i>	<i>Capital redemption reserve fund</i>	<i>Unappropriated profit</i>	<i>Total</i>
----- Rupees -----						
Balance as at July 1, 2005	187,000,000	120,930,000	12,104,417	120,930,000	268,877,958	709,842,375
Final Dividend @ Rs.2.00 per share for the period ended June 30, 2005	-	-	-	-	(37,400,000)	(37,400,000)
Dividend @ 13% on preference shares for the year ended June 30, 2006	-	-	-	-	(11,812,210)	(11,812,210)
Profit for the year	-	-	-	-	21,621,456	21,621,456
Balance at June 30, 2006	187,000,000	120,930,000	12,104,417	120,930,000	241,287,204	682,251,621
Final Dividend for the year ended 30 June 2006						
-Cash dividend 8.8%	-	-	-	-	(16,456,000)	(16,456,000)
-Dividend in specie	-	-	-	-	(133,226,866)	(133,226,866)
Dividend @ 13% on preference shares	-	-	-	-	(14,773,339)	(14,773,339)
Profit for the year	-	-	-	-	43,182,225	43,182,225
Balance at June 30, 2007	187,000,000	120,930,000	12,104,417	120,930,000	120,013,224	560,977,641

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



Shahzada Ellahi Shaikh
Director

September 25, 2007



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. GENERAL INFORMATION

The Company is limited by shares incorporated in Pakistan on May 16, 1967, and is quoted on Karachi and Lahore Stock Exchanges of Pakistan with registered office in Karachi, Sindh. The principal business of the Company is manufacture and sale of cotton and blended yarn. The Mills are located in Kotri Industrial Trading Estate in the Province of Sindh.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Basis of preparation

These financial statements have been prepared under 'historical cost convention', modified by certain financial instruments at fair value, staff retirement benefits at present value and investment in associates accounted for using equity method.

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

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

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

2.4 Accounting for leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account.

2.5 Employee benefit cost - defined benefit plan

The Company operates an unfunded gratuity scheme for its confirmed employees who have completed the minimum qualifying period of service as defined under the respective scheme. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account.

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

Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Company's gratuity is amortized over the average expected remaining working lives of the employees.

Details of the scheme are given in note 7.1 to these financial statements.

2.6 Trade and other payable

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

2.7 Provisions

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

2.8 Property, plant and equipment

Operating assets

Property, plant and equipment except freehold land, are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land is stated at cost.

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

Depreciation is charged to income applying the reducing balance method at the rates specified in property, plant and equipment note.

Depreciation on additions during the period is charged on the basis of whole period while no depreciation is charged on deletions during the year. However, major capitalization of project cost are depreciated on proportionate basis for the period of use.

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets.

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

Gains and losses on disposal of assets are included in current income as and when incurred.

Capital work in progress

All cost / expenditure connected with specific assets incurred during the implementation period are carried under this head. These are transferred to specific assets as and when assets are available for use.

2.9 Investment properties

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Company comprises land and buildings which are valued using the cost method i.e. at cost less accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on reducing balance method so as to write off the depreciable amount of building over its estimated useful life at the rate of 5% per annum. Depreciation on additions to investment property is charged on the basis of whole year while no depreciation is charged on deletions during the year.

2.10 Investments

Regular way purchase or sale of investments

All purchases and sales of investments are recognized using trade date accounting. Trade date is the date that the Company commits to purchase or sell the investment.

Investments in Associates

These investments are accounted for using equity method of accounting and initially are recognized at cost.

Change in the status of subsidiary to associate

During the year, the Company distributed its investment in Ellcot Spinning Mills Limited as specie dividend to its shareholders, as a result its holding in Ellcot Spinning Mills Limited reduced from 60.25% to 26.09% and therefore status of Ellcot Spinning Mills Limited changed from a subsidiary to an associated undertaking. Up till June 30, 2006 the Company was preparing consolidated financial statements as per IAS-27, as the Company has no subsidiary, the consolidated financial statements are not being prepared. Investments in the associated undertaking are being measured under the equity method as per International Accounting Standard (IAS-28) "Investment in associates ". For detail of adjustments made in the financial statements, refer the following notes.

- Deferred taxation (Note-7.2)
- Long term investments (Note-15.1)
- Earnings per share (Note-30)

Available for sale investments

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

Financial assets at fair value through profit or loss

There are investments designated at fair value through profit or loss at inception. There are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are initially recognized at cost inclusive of transaction cost and are subsequently carried at amortized cost using effective interest rate method.

Derecognition

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.

2.11 Stores and spares

These are valued at lower of moving average cost or net realizable value, except furnace oil, diesel and lubricants which are valued at lower of first in first out basis or net realizable value less allowance for obsolete and slow moving items. Items in transit are valued at cost accumulated upto the balance sheet date.

2.12 Stock in trade

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

Raw material	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realisable value

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads. Net realizable value signifies estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessary to make the sale.

2.13 Trade debts and other receivables

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

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise of cash in hand, balances with banks, short term running finances and book overdraft.

2.15 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

2.16 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

2.17 Revenue recognition

Sales are recorded on dispatch of goods.

Dividend is recognized when right to receive is established. Profit on PLS saving account is recognized on accrual basis.

Rental income is recognized on accrual basis.

2.18 Borrowing costs

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

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

2.19 Taxation

Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption available if any or minimum taxation at the rate of one-half percent of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of Technical Release – 27 of Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

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

2.20 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees at the rates prevailing at the date of transaction except for those covered by forward contracts, which are translated at contracted rates. At each balance sheet date, monetary asset and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences are included in profit and loss for the year.

		<i>2007</i>	<i>2006</i>
		<i>Rupees</i>	<i>Rupees</i>
3. SHARE CAPITAL			
3.1 Authorised share capital			
50,000,000 Ordinary and preference shares of Rs.10/- each		<u>500,000,000</u>	<u>500,000,000</u>
3.2 Issued, subscribed and paid-up capital			
Fully paid ordinary shares of Rs.10/- each			
	<i>2007</i>	<i>2006</i>	
	<i>No. of Shares</i>		
3,133,000	3,133,000	For cash	31,330,000
15,567,000	15,567,000	Issued as bonus shares	155,670,000
<u>18,700,000</u>	<u>18,700,000</u>		<u>187,000,000</u>
13% Cumulative Preference Shares of Rs.5/- each			
<u>24,186,000</u>	<u>24,186,000</u>		<u>120,930,000</u>
3.3	At June 30, 2007, ARH (Private) Limited, Monell (Private) Limited and Ellahi International (Private) Limited, associated companies held 1,609,642 and 20,900 and 1,400,000 (2006 : 3,009,642 and 20,900 and nil) ordinary shares of Rs.10/- each.		
3.4	Redeemable preference shares are entitled to fixed dividend of 13% per annum from the date of allotment i.e. January 21, 2003. Preference shares shall be redeemed within five years of date of allotment.		
	<i>Note</i>	<i>2007</i>	<i>2006</i>
		<i>Rupees</i>	<i>Rupees</i>
4. CAPITAL RESERVES			
Capital Reserve			
Book difference of capital under Scheme of arrangement for amalgamation		12,104,417	12,104,417
Preference shares capital redemption reserve		120,930,000	120,930,000
		<u>133,034,417</u>	<u>133,034,417</u>
5. LONG TERM FINANCING			
Secured			
Custom debentures	5.1	-	-
Long term loans	5.2	243,967,783	269,703,349
		<u>243,967,783</u>	<u>269,703,349</u>

5.1 Custom debentures

Opening balance-current portion	5.1.1	2,832,155	2,832,155
Amount due shown under current liabilities		(2,832,155)	(2,832,155)
		-	-

5.1.1 The debentures have been issued in favour of collector of customs to cover deferred payment of custom duty on imported machinery. The debentures are subject to surcharge @ 11% per annum. The repayment is secured against bank guarantee.

5.2 Long term loans - Secured

	< ----- Banking Companies ----- >						June 30,	June 30,
	Term	Term	Term	Term	Term	Term	2007	2006
	Loan	Loan	Loan	Loan	Loan	Loan	Rupees	Rupees
Opening balance	38,328,771	7,838,915	200,000,000	75,000,000	-	-	321,167,686	225,857,359
Obtained during the year	-	-	-	7,400,000	-	-	7,400,000	136,774,667
	38,328,771	7,838,915	200,000,000	82,400,000			328,567,686	362,632,026
Transfer during the year	-	-	(54,045,000)	(20,569,060)	54,045,000	20,569,060	-	-
Repaid during the year	(38,328,771)	(3,135,566)	-	-	-	-	(41,464,337)	(41,464,340)
	-	4,703,349	145,955,000	61,830,940	54,045,000	20,569,060	287,103,349	321,167,686
Payable within one year shown under current liabilities	-	(3,135,566)	(29,191,000)	-	(10,809,000)	-	(43,135,566)	(51,464,337)
	-	1,567,783	116,764,000	61,830,940	43,236,000	20,569,060	243,967,783	269,703,349
Principal amount	150,000,000	15,677,830	200,000,000	125,000,000	54,045,000	20,569,060		
Commencing from	September 2003	March 2004	July 2007	August 2008	July 2007	August 2008		
Markup rate	6 months	6 months	3 months	3 months	Fixed rate	Fixed rate		
	T.Bill+3%	T.Bill+2.25 %	KIBOR+1%	KIBOR+1.4%	7%	7%		
Installment interval	half yearly	half yearly	quarterly	quarterly	quarterly	quarterly		
No. of installment	8	10	20	16	20	16		
Sub note	5.2.1	5.2.2	5.2.3	5.2.4	5.2.5	5.2.6		

5.2.1 The loan is secured against mortgage on present and future properties of the Company ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.2, 5.2.3, 5.2.4, 5.2.5 and 5.2.6), demand promissory note and personal guarantee of all the sponsor directors.

5.2.2 The loan is secured by charge on fixed assets ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.3, 5.2.4, 5.2.5 and 5.2.6) and personal guarantee of sponsor directors.

5.2.3 The loan is secured by charge on fixed assets of the Company ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.2, 5.2.4, 5.2.5 and 5.2.6), personal guarantee of the sponsor directors of the Company and lien on the import documents of title to goods.

5.2.4 The loan is secured by first pari passu charge on all present and future land and buildings and hypothecation charge on plant and machinery of the Company. Unavailed facility as at June 30, 2007 is amounting to Rs.42.6 million.

5.2.5 During the year the Company swap a portion from Term Finance of Rs200 million (Refer Note 5.2.3) under the SMED circular number 19 of 2006 dated 4 September 2006 of the State Bank of Pakistan pertaining to the SBP LTF-EOP Scheme .The loan is secured against the securities mentioned in Note 5.2.3.

5.2.6 During the year the Company swap a portion from Term Finance of Rs125 million (Refer Note 5.2.4) under the SMED circular number 19 of 2006 dated 4 September 2006 of the State Bank of Pakistan pertaining to the SBP LTF-EOP Scheme. The loan is secured against the securities mentioned in Note 5.2.4

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

This represents vehicle acquired under sale and lease back arrangement from a Modaraba. The effective financing rate used as discounting factor is 8.85 % per annum.

Taxes, repairs, replacement and insurance costs are borne by the Company.

The Company intends to exercise its option to purchase the above assets upon completion of the lease period.

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

	2007		2006	
	<i>Minimum lease payments</i>	<i>Present value</i>	<i>Minimum lease payments</i>	<i>Present value</i>
	< ----- Rupees ----- >			
Within one year	2,881,736	2,509,734	2,881,736	2,299,247
After one year but not more than five years	2,715,868	2,614,752	5,597,604	5,124,486
Total minimum lease payments	5,597,604	5,124,486	8,479,340	7,423,733
Less: Amount representing finance charges	(473,118)	-	(1,055,607)	-
Present value of minimum lease payments	5,124,486	5,124,486	7,423,733	7,423,733
Less: Current portion	(2,509,734)	(2,509,734)	(2,299,247)	(2,299,247)
	<u>2,614,752</u>	<u>2,614,752</u>	<u>5,124,486</u>	<u>5,124,486</u>

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
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7. DEFERRED LIABILITIES

Staff gratuity	7.1	14,694,138	15,489,575
Deferred taxation	7.2	51,000,000	47,000,000
		<u>65,694,138</u>	<u>62,489,575</u>

7.1 Staff gratuity

Staff gratuity	<u>14,694,138</u>	<u>15,489,575</u>
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Amount recognised in the profit and loss account is as follows:

Current service cost	4,175,169	3,702,189
Interest cost	1,394,062	1,498,858
	<u>5,569,231</u>	<u>5,201,047</u>

Movements in the net liability is as follows:

Opening balance	15,489,575	16,786,884
Charge for the year	5,569,231	5,201,047
Payment made during the year	(6,364,668)	(6,498,356)
Closing balance	<u>14,694,138</u>	<u>15,489,575</u>

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
The amounts recognized in the balance sheet are as follows:			
Present value of defined benefit obligation		<u>14,694,138</u>	<u>15,489,575</u>

The principal assumption used in the valuation of gratuity are as follows:

Discount rate	9%	9%
Expected rate of salary increase	8%	8%
Average expected remaining working life of the employees	10 years	10 years

Latest actuarial valuation was carried out as on August 06, 2005.

Comparison for five years;

	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
As at June 30					
Present value of defined benefit obligation	14,694,138	15,489,575	16,786,884	15,466,173	18,130,020
Actuarial losses	-	-	438,601	-	-

7.2 *Deferred Taxation*

Credit & (Debit) balance arising due to :

Accelerated tax depreciation allowance		63,917,969	47,665,777
Finance leases		66,258	(141,899)
Provision for bad debts		(623,653)	-
Assessed losses		(11,774,805)	-
Staff gratuity		(3,085,769)	(3,523,878)
Investment in associates	7.2.1	2,500,000	3,000,000
		<u>51,000,000</u>	47,000,000
Opening balance		(47,000,000)	(42,700,000)
Balance provided during the year		4,000,000	4,300,000

Deferred tax liability worked out after taking effect of income covered under presumptive tax regime.

7.2.1 Due to change in the status of Ellcot Spinning Mills Limited from a subsidiary to an associated undertaking, deferred tax liability associated with investments in associate is recognised as per International Accounting Standards (IAS) - 12 "Income Taxes" and an adjustment of Rs. 5,700,000 has been made in opening balance of deferred tax liability as at July 1, 2005 to account for the previous years impact and a corresponding adjustment has been made in the opening balance of the unappropriated profit as at July 1, 2005.

	<i>Note</i>	<i>2007</i> <i>Rupees</i>	<i>2006</i> <i>Rupees</i>
8. TRADE AND OTHER PAYABLES			
Creditors		10,653,334	9,937,486
Accrued expenses		31,173,068	39,650,900
Unearned rent		7,896,480	797,332
Deposit from customers and tenants		4,766,540	10,466,856
Unclaimed dividend		2,881,927	2,721,475
Workers' profit participation fund	8.1	3,119,958	1,879,293
Workers welfare fund		1,180,995	-
Central excise duty on bank borrowings		7,500,065	7,500,065
Preference shares dividend		6,934,424	7,881,985
Other		467,945	466,393
		<u>76,574,736</u>	<u>81,301,785</u>

8.1 Workers' profit participation fund

Opening balance	1,879,293	5,512,450
Interest on fund utilized in the Company's business	300,275	611,655
	<u>2,179,568</u>	<u>6,124,105</u>
Allocation for the year	2,986,504	1,879,293
	<u>5,166,072</u>	<u>8,003,398</u>
Paid to workers	(2,046,114)	(6,124,105)
	<u>3,119,958</u>	<u>1,879,293</u>

9. SHORT TERM BORROWINGS - SECURED**Banking Companies**

Borrowings		
Cash finances	2,002,632	-
Packing finance	-	1,320,958
Foreign currency finance	173,722,096	324,976,133
	<u>175,724,728</u>	<u>326,297,091</u>
Running finance	16,812,539	27,523,797
Book overdraft	7,084,311	5,140,410
	<u>199,621,578</u>	<u>358,961,298</u>

The Company can avail cash, foreign currency and running finance facilities from various banks aggregating to Rs. 1,113 million (2006 : Rs. 1,115 million). These borrowings are secured against hypothecation of stock and floating and pari passu charge on present and future current assets, demand promissory notes, personal guarantee of the Directors and lien on export orders / contracts. These are subject to variable markup ranging from one, three and six months KIBOR + 0.5% to 1.5% (2006 : one, three and six months KIBOR+0.5% to 1.5%) and fixed markup ranging from 5.97% to 10.75% per annum payable on quarterly basis.

	<i>Note</i>	<i>2007</i> <i>Rupees</i>	<i>2006</i> <i>Rupees</i>
10. CURRENT PORTION OF NON CURRENT LIABILITIES			
Custom debentures	5.1	2,832,155	2,832,155
Long term loans	5.2	43,135,566	51,464,337
Liabilities against assets subject to finance lease	6	2,509,734	2,299,247
		<u>48,477,455</u>	<u>56,595,739</u>

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
11. PROFIT / MARKUP PAYABLE			
Debenture and Long term loan		8,777,380	10,846,789
Liabilities against assets subject to finance lease		4,933	7,146
Short term borrowings		3,855,527	5,645,902
		<u>12,637,840</u>	<u>16,499,837</u>

12. CONTINGENCIES AND COMMITMENTS**12.1 Contingencies**

- (a) Guarantee of Rs.8,000,000/- (2006 : Rs.8,000,000/-) to Excise Department for infrastructure fee on behalf of the Company.
- (b) Irrevocable revolving letter of credit issued in favour of Sui Gas Company Limited amounting to Rs.19,862,500/- (2006: Rs.19,862,500/-).

	<i>Note</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
12.2 Commitments			
(a) Capital commitment			
Machinery under documentary credit		<u>-</u>	<u>6,786,600</u>
(b) Other commitments			
Stores and spares		5,731,551	519,915
Raw materials		<u>16,179,107</u>	<u>-</u>

13. PROPERTY, PLANT AND EQUIPMENT

Operating assets	13.1	598,404,625	652,991,085
Capital work in progress	13.2	<u>2,317,513</u>	<u>5,555,434</u>
		<u>600,722,138</u>	<u>658,546,519</u>

13.1 Operating assets

Particulars	Cost at July 01, 2006	Additions/ (Deletions) Adjustments	Cost at June 30, 2007	Accumulated depreciation at July 01, 2006	Depreciation for the year Adjustments	Accumulated depreciation at June 30, 2007	Written down value at June 30, 2007	Dep. Rate %
Owned								
Land - free hold	12,452,876	- * (5,052,558)	7,400,318	-	-	-	7,400,318	-
Commercial building on free hold land	24,593,167	- * (10,676,103)	13,917,064	11,129,143	380,959 (4,831,256)	6,678,846	7,238,218	5
Land - freehold	127,383	-	127,383	-	-	-	127,383	-
Factory building on freehold land	111,934,029	6,986,275	118,920,304	53,984,558	6,182,328	60,166,886	58,753,418	10
Non factory building on freehold land	25,075,632	-	25,075,632	8,093,435	849,110	8,942,545	16,133,087	5
Machinery and equipment	1,019,971,434	12,840,215	1,032,811,649	518,620,587	51,316,475	569,937,062	462,874,587	10
Electric installation and equipment	48,808,493	770,957	49,579,450	23,240,806	2,633,864	25,874,670	23,704,780	10
Gas installation	3,264,556	-	3,264,556	1,282,405	198,215	1,480,620	1,783,936	10
Office equipment	9,166,169	247,652	9,413,821	5,559,030	385,479	5,944,509	3,469,312	10
Furniture and fixtures	9,239,031	634,565	9,873,596	4,842,018	503,158	5,345,176	4,528,420	10
Vehicles	20,761,200	896,240 (3,089,075)	18,568,365	12,450,903	1,737,792 (2,571,496)	11,617,199	6,951,166	20
	1,285,393,970	22,375,904 (3,089,075) (15,728,661)	1,288,952,138	639,202,885	64,187,380 (4,831,256) (2,571,496)	695,987,513	592,964,625	
Asset held under finance lease								
Vehicle	8,500,000	-	8,500,000	1,700,000	1,360,000	3,060,000	5,440,000	20
	8,500,000	-	8,500,000	1,700,000	1,360,000	3,060,000	5,440,000	
2007 Rupees	1,293,893,970	22,375,904 (3,089,075) (15,728,661)	1,297,452,138	640,902,885	65,547,380 (4,831,256) (2,571,496)	699,047,513	598,404,625	
2006 Rupees	1,141,315,752	158,735,310 (6,157,092)	1,293,893,970	583,096,467	61,615,971 (3,809,553)	640,902,885	652,991,085	

* These represent portion of land and building rented out transferred and classified as investment properties in accordance with IAS-40 Investment property. (Refer Note-14)

2007 Rupees **2006 Rupees**

13.1.1 Depreciation for the year has been allocated as under:

Cost of goods manufactured	61,141,015	56,151,050
Administration	4,406,365	5,464,920
	65,547,380	61,615,970

13.1.2 Detail of disposal of assets - by negotiation

Description of Assets	Cost	Written Down Value	Sale Proceed	Particulars of Buyer
Vehicle	1,400,000	52,339	375,000	Tariq Masood Chaudry, 9-Jinnah Park Hide Market Lahore
Vehicle	979,975	218,360	225,000	Muhammad Saleem Aziz, House No A-1-12-A Khudadad Colony Karachi
Vehicle	354,550	123,440	130,000	Zeeshan Kaleem, House No 10-2 Area 11-D Nazimabad Karachi
Vehicle	354,550	123,440	128,000	Riaz Ahmed, Amir Complex House No 233-B1 Street Mangoline Kotri
Rupees-2007	3,089,075	517,579	858,000	
Rupees-2006	6,157,092	2,347,539	2,020,000	

	2007 Rupees	2006 Rupees
13.2 Capital work in progress		
Civil work	2,295,973	3,971,630
Machinery	21,540	1,583,804
	2,317,513	5,555,434

14. INVESTMENT PROPERTIES

	Cost at July 01,2006	Additions	Total Cost June 30, 2007	Accumulated depreciation at July 01,2006	Depreciation for the year	Transfers	Accumulated depreciation at June 30,2007	Written down value at June 30,2007	Rate of Depreciation
	Rupees								
Land at Sheikhpura - freehold	751,338	-	751,338	-	-	-	-	751,338	-
Land - free hold	3,248,073	* 5,052,558	8,300,631	-	-	-	-	8,300,631	-
Building on free hold land	6,863,209	* 10,676,103	17,539,312	3,105,807	480,112	4,831,256	8,417,175	9,122,137	5%
2007	10,862,620	15,728,661	26,591,281	3,105,807	480,112	4,831,256	8,417,175	18,174,106	
2006	10,862,620	-	10,862,620	2,908,049	197,758	-	3,105,807	7,756,813	

* Transferred from operating assets. (Refer Note 13.1)

Fair value of land at Sheikhpura - freehold is Rs.5,500,000/- and building with land - free hold is Rs.116,000,000/-.

Note	2007 Rupees	2006 Rupees
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15. LONG TERM INVESTMENTS

Cost of investments	15.1	28,855,067	59,741,674
Shares of post-acquisition profits		115,573,146	209,792,124
Less: Dividends received		(9,895,493)	(13,193,990)
		105,677,653	196,598,134
Investment in associated undertakings	15.2	134,532,720	256,339,808

15.1 During the year, the Company distributed its investment in Ellcot Spinning Mills Limited as specie dividend to its shareholders, amounting to Rs.30,886,607 (Cost), as a result its holding in Ellcot Spinning Mills Limited reduced from 60.25% to 26.09%. Due to the change in the status of the subsidiary, the investment in the associate has been measured under the equity method and resulted an adjustment of Rs. 198,191,518 in the carrying value of the investment in the associates which was previously stated at cost. The corresponding effect of the adjustment has been included in the opening balance of the unappropriated profit as at July 1, 2005.

	Note	2007 Rupees	2006 Rupees
15.2 Investment in associated undertakings			
Investment in associated undertakings - opening balance		256,339,808	257,933,192
Share of the profit for the year from the associated undertakings		21,315,271	11,600,606
Less: Ordinary dividend		(9,895,493)	(13,193,990)
Less: Dividend in specie		(133,226,866)	-
		134,532,720	256,339,808

15.3 Detail of Company's associated undertakings as at June 30, 2007 are as follows:

Name of associated undertakings	Place of incorporation and operation	Proportion of ownership interest		Principal Activity
		2007	2006	
Ellicot Spinning Mills Limited (ESML)	Lahore	26.09%	60.25%	Spinning
Prosperity Weaving Mills Limited (PWML)	Lahore	* 5.48%	5.48%	Weaving

* Although the Company hold less than 20% of the voting power in Prosperity Weaving Mills Limited, the Company exercise significant influence by virtue of common management and directorship.

The summarized financial information of the associated companies for the year ended June 30, 2007 is as follows;

	2007		2006	
	ESML	PWML	ESML	PWML
Total assets	1,689,017,293	1,572,816,863	1,318,611,941	1,422,906,085
Total liabilities	1,247,905,896	1,217,820,290	925,001,689	1,072,604,909
Revenues	1,594,876,385	2,681,574,672	1,481,382,816	2,673,816,745
Profit after tax	63,926,145	4,695,397	16,649,169	28,662,082

16. STORES AND SPARES

	2007 Rupees	2006 Rupees
Stores	6,648,411	5,726,179
Spares	17,142,357	16,414,492
	23,790,768	22,140,671

17. STOCK IN TRADE

Raw materials		
In hand	120,717,645	233,809,416
In-transit	12,379,839	-
Work in process	29,238,972	27,265,531
Finished goods	20,674,219	14,435,945
Waste	2,135,936	668,745
	185,146,611	276,179,637

18. TRADE DEBTS

Foreign - secured	83,616,787	21,647,907
Local - unsecured	86,284,081	148,480,893
	169,900,868	170,128,800
Provision for doubtful debts	(2,969,776)	(5,000,000)
Considered good	166,931,092	165,128,800

	2007 Rupees	2006 Rupees
19. ADVANCES		
<i>Considered good</i>		
Employees	42,023	33,764
Income tax	4,449,624	93,031
Suppliers	6,017,896	12,820,540
Expenses	562,756	264,924
Letters of credit	894,375	531,547
	<u>11,966,674</u>	<u>13,743,806</u>

19.1 Movement of advance tax is as under:

Opening balance	93,031	(3,649,182)
Add: Paid during the year	12,056,593	10,942,213
Less: Provision for tax	(7,700,000)	(7,200,000)
	<u>4,449,624</u>	<u>93,031</u>

20. OTHER RECEIVABLES

Sales tax refundable	3,755,052	8,486,111
Export rebate	55,562	55,562
Income tax refundable	8,603,078	8,603,078
Profit / markup accrued	-	552,631
Other receivables	351,406	490,656
	<u>12,765,098</u>	<u>18,188,038</u>

21. OTHER FINANCIAL ASSETS*Investments in listed securities - held for trading
- fair value through profit and loss*

2007 No. of units	2006	Note	2007 Rupees	2006 Rupees
405,074	-	United Growth and Income Fund (UGIF)	<u>45,205,014</u>	-

22. CASH AND BANK BALANCES

Cash in hand		62,348	35,348
Cash with banks			
In current accounts		8,361,794	25,222,551
In deposit accounts	22.1	1,794	86,262,385
		<u>8,425,936</u>	<u>111,520,284</u>

22.1 Deposit account carries mark up at the rate varying from 10.65% to 10.83% per annum (2006; 8% to 10% per annum)

Note	Local	Export	2007	2006
	<----- Rupees ----->			

23. SALES - NET

Yarn	23.1	978,031,531	489,538,927	1,467,570,458	1,361,123,858
Waste		72,973,726	-	72,973,726	80,846,337
		1,051,005,257	489,538,927	1,540,544,184	1,441,970,195
Add: Export rebate		-	-	-	1,068,659
		1,051,005,257	489,538,927	1,540,544,184	1,443,038,854
Less: Commission		(7,137,736)	(6,368,767)	(13,506,503)	(13,954,617)
		<u>1,043,867,521</u>	<u>483,170,160</u>	<u>1,527,037,681</u>	<u>1,429,084,237</u>

23.1 It includes exchange gain of Rs.3,446,386/- (2006 : exchange loss Rs.93,095/-).

	Notes	2007 Rupees	2006 Rupees
24. COST OF GOODS SOLD			
Opening stock - finished goods		15,104,691	20,557,595
Cost of goods manufactured	24.1	1,351,509,957	1,269,708,252
Purchase of finished goods		19,788,050	3,657,500
		<u>1,386,402,698</u>	<u>1,293,923,347</u>
Closing stock - finished goods		(22,810,155)	(15,104,691)
		<u>1,363,592,543</u>	<u>1,278,818,656</u>

24.1 Cost of goods manufactured

Raw material	24.1.1	984,285,107	913,429,901
Packing material		23,063,665	20,185,493
Stores and spares		31,371,229	36,507,512
Salaries, wages and benefits	24.1.2	121,200,952	111,442,366
Power		119,191,472	125,529,919
Rent, rates and taxes		295,369	206,963
Insurance		5,280,106	6,051,842
Repairs and maintenance		3,499,048	2,584,295
Depreciation	13.1.1	61,141,015	56,151,050
Doubling charges		1,960,469	4,257,939
Other manufacturing overheads		2,194,966	1,338,854
		<u>1,353,483,398</u>	<u>1,277,686,134</u>
Work in process			
Opening stock		27,265,531	19,287,649
Closing stock		(29,238,972)	(27,265,531)
		<u>(1,973,441)</u>	<u>(7,977,882)</u>
		<u>1,351,509,957</u>	<u>1,269,708,252</u>

24.1.1 Raw material consumed

Opening stock	233,809,416	239,298,751
Purchases-net	871,193,336	907,940,566
	<u>1,105,002,752</u>	<u>1,147,239,317</u>
Closing stock	(120,717,645)	(233,809,416)
	<u>984,285,107</u>	<u>913,429,901</u>

24.1.2 It includes Rs.4,262,133/- (2006 : Rs.3,429,051/-) in respect of staff retirement benefits.

25. OTHER INCOME

Rental income from investment property	9,669,202	2,166,700
Gain on sale of investments - held for trading - net of commission	2,061,362	2,290,837
Scrap sales	701,048	1,151,358
Gain / (loss) on disposal of property, plant and equipment	340,421	(327,539)
Profit on bank deposits	903,034	1,612,736
Reversal of provision for doubtful debts	1,645,604	-
Unrealized gain on revaluation of investments - held for trading	205,014	-
Regulatory duty	-	(2,736,563)
	<u>15,525,685</u>	<u>4,157,529</u>

	<i>Notes</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
26. DISTRIBUTION COST			
Freight		14,199,166	12,137,769
Stamp duty		2,225,771	2,132,655
Travelling		2,785,142	1,373,467
Export development surcharge		1,177,063	982,176
Quality claims		1,522,198	1,002,848
Distribution cost		324,800	328,750
Other		1,915,244	2,254,070
		24,149,384	20,211,735

27. ADMINISTRATIVE EXPENSES

Directors' remuneration and benefits		1,539,900	1,437,900
Staff salaries and benefits	27.1	18,891,435	18,527,958
Traveling and conveyance		478,604	636,576
Printing and stationery		1,285,273	1,413,076
Postage and telephone		2,307,962	2,642,914
Fees, subscription and periodicals		664,476	776,867
Legal and professional		1,239,050	352,500
Advertisement		39,106	26,731
Utilities - net of recoveries		1,810,906	1,436,361
Rent, rates and taxes		1,761,511	1,919,427
Insurance		1,202,138	1,313,398
Auditors' remuneration	27.2	660,000	860,200
Repairs and maintenance		834,070	1,447,865
Vehicles running and maintenance		4,580,816	4,712,276
Entertainment		366,335	451,628
Charity and donation	27.3	128,000	1,374,280
Depreciation	27.4	4,886,477	5,662,678
Other		408,720	385,280
		43,084,779	45,377,915

27.1 It includes Rs.1,307,098 /- (2006 : Rs.1,771,996/-) in respect of staff retirement benefits.

27.2 Auditors' remuneration

Statutory audit fee	330,000	300,000
Certification, other statutory reporting and tax advisory services	330,000	560,200
	660,000	860,200

27.3 No director or his spouse had any interest in the donees' fund.

27.4 It includes depreciation on investment properties amounting to Rs.480,112/- (2006 : Rs.197,758/-).

	<i>Notes</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
28. FINANCE COST			
Markup / interest on Redeemable capital		-	117,862
Debentures		380,075	380,075
Long term loans		31,919,146	23,022,803
Liabilities against assets subject to finance lease		580,276	375,248
Short term borrowings including bills discounting	28.1	35,920,400	36,972,810
Workers' profit participation fund		300,275	611,655
Bank charges and commission		4,902,035	3,952,864
		74,002,207	65,433,317

28.1 It includes exchange loss of Rs.4,453,802 on short term foreign currency borrowings.

29. TAXATION - CURRENT

The relationship between tax expense and accounting profit for current year and comparative figures for 2006 has not been presented in these financial statements as the income of the Company attracts minimum tax under section 113 and presumptive tax under section 154 of the Income Tax Ordinance, 2001.

30. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company which is based on :-

	<i>2007 Rupees</i>	<i>2006 Rupees</i>
Profit after taxation	43,182,225	21,621,456
Less: Dividend on preference shares	(14,773,339)	(11,812,210)
Profit after dividend on preference shares	28,408,886	9,809,246
Weighted average number of ordinary shares	18,700,000	18,700,000
Earnings per share	1.52	0.52

30.1 Due to the reason mentioned in note # 2.10 the EPS for the year ended June 30, 2006 has been increased by Re. 0.05.

31. REMUNERATION OF DIRECTORS AND EXECUTIVES

Chief Executive and a director are provided with free use of Company maintained car. Chief Executive is also reimbursed residential telephone and utilities bills the monetary value of which is Rs.17,714/- (2006 : Rs.34,462/-) and Rs.478,224/- (2006 : Rs.554,820/-) respectively.

	<i>Chief Executive</i>		<i>Director</i>	
	<i><----- Rupees -----></i>			
Meeting fee	-	-	9,000	3,000
Remuneration	642,000	642,000	400,000	336,000
House rent allowance	288,900	288,900	180,000	151,200
Other allowances	-	-	20,000	16,800
	930,900	930,900	609,000	507,000
Number of persons	1	1	1	1

32. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings and directors of the Company. The Company in the normal course of business carries out transactions with various related parties. Amounts due from / to related parties and directors are shown under receivables and payables and remuneration of directors is disclosed in note 31. Other significant transactions with related parties are as follows:

<i>Relationship with the Company</i>	<i>Nature of Transactions</i>	<i>2007 Rupees</i>	<i>2006 Rupees</i>
Ellicott Spinning Mills Ltd			
Associated undertaking	Purchase of goods and services	2,519,345	-
	Sale of goods and services	36,838,713	-
	Rental income	480,000	-
	Dividend income	9,895,493	-
Subsidiary company	Purchase of goods and services	-	91,316
	Sale of goods and services	-	119,167,010
	Rental income	-	480,000
	Dividend income	-	13,193,990
Prosperity Weaving Mills Ltd			
Associated undertaking	Sale of goods and services	642,365	12,209,450
	Rental income	755,000	755,000

33. PLANT CAPACITY AND ACTUAL PRODUCTION

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed and twist. It would also vary according to the pattern of production adopted in a particular year.

	<i>2007 production capacity Kgs.</i>	<i>2007 actual production Kgs.</i>	<i>2006 production capacity Kgs.</i>	<i>2006 actual production Kgs.</i>
Coarse	3,755,315	3,669,400	3,755,315	4,269,146
Medium	2,133,701	7,335,440	2,133,701	6,145,361
Fine	256,043	153,047	256,043	430,396
	6,145,059	11,157,887	6,145,059	10,844,903

	<i>2007</i>	<i>2006</i>
Total number of spindles installed	46,428	46,428
Total number of spindles worked	46,428	46,428
Number of shifts per day	3	3
Actual number of shifts in a year	1,091	1,090

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows :

- i) Taxation (note 2.19)
- ii) Retirement benefits (note 2.5)
- iii) Investment in associates (note 15)
- iv) Deferred taxation (note 7.2)

35. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

In respect of current year, the directors proposed to pay cash dividend of Re. 1/50 @ 15% per ordinary share of Rs. 10/- each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment.

36. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 25, 2007 by the Board of Directors of the Company.

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The effective interest rates on its financial assets and liabilities have been disclosed in the respective notes to the financial statements. The Company's exposure to interest rate risk on its financial assets and liabilities as at year end are summarized as follows:

	<i>Interest bearing</i>			<i>Non-interest Bearing</i>	<i>Total Rupees</i>
	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub Total</i>		
FINANCIAL ASSETS					
Long term deposits	-	-	-	2,477,900	2,477,900
Trade debts	-	-	-	166,931,092	166,931,092
Advances	-	-	-	7,517,050	7,517,050
Other receivables	-	-	-	406,968	406,968
Cash and bank balances	1,794	-	1,794	8,424,142	8,425,936
2007	1,794	-	1,794	185,757,152	185,758,946
2006	86,262,385	-	86,262,385	207,579,823	293,842,208
FINANCIAL LIABILITIES					
Long term loans	43,135,566	243,967,783	287,103,349	-	287,103,349
Liabilities against assets subject to finance lease	2,509,734	2,614,752	5,124,486	-	5,124,486
Custom debentures	2,832,155	-	2,832,155	-	2,832,155
Trade and other payables	-	-	-	76,574,736	76,574,736
Short term borrowings	199,621,578	-	199,621,578	-	199,621,578
Profit / markup payable	-	-	-	12,637,840	12,637,840
2007	248,099,033	246,582,535	494,681,568	89,212,576	583,894,144
2006	415,557,037	274,827,835	690,384,872	91,831,137	782,216,009
On balance sheet gap - 2007	(248,097,239)	(246,582,535)	(494,679,774)	96,544,576	(398,135,198)
On balance sheet gap - 2006	(329,294,652)	(274,827,835)	(604,122,487)	115,748,686	(488,373,801)

37.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets, the financial asset which are subject to credit risk amounted to Rs.96,685,999/-. The Company believes that it is exposed to major concentration of credit risk in the textile sector. The management monitors and limits the Company's exposure of credit risk by limiting transactions with specific counter parties and continually assessing their credit worthiness.

37.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is however exposed to interest rate risk in case of long term loan and short term borrowings. The rate of interest / markup and their maturities are given in the respective notes.

37.3 Fair values of financial instruments

The carrying value of all the financial instruments reported in the financial statements approximates their fair value.

37.4 Liquidity risk

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

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Company is not exposed to any significant foreign currency risk. As at June 30, 2007, the total foreign currency risk exposure was Rs.83,616,787 /- (2006: Rs. 21,647,907/-) in respect of trade debts.

Foreign exchange is the risk of loss through changes in foreign currency exchange rates. The Company is exposed to foreign exchange risk due to transactions denominated in foreign currencies.

38 GENERAL

38.1 Have been rounded off nearest to Rupee.

38.2 The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

38.3 Following corresponding figure has been reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison:

<i>Description</i>	<i>Current Classification</i>	<i>Previous Classification</i>
Provision for taxation	Advance tax	Provision for taxation



Shahzada Ellahi Shaikh
Director



Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

September 25, 2007

**THE COMPANIES ORDINANCE, 1984
(Section 236(1) and 464)**

PATTERN OF SHAREHOLDING

1. Incorporation Number (CUIN)

0002500

2. Name of the Company

NAGINA COTTON MILLS LTD.

3. Pattern of holding of the shares held by the shareholders as at

30-06-2007

4. No. of Shareholders	Shareholding		Total Shares Held
	From	To	
401	1	100	15,213
320	101	500	88,325
71	501	1,000	57,221
141	1,001	5,000	310,394
29	5,001	10,000	192,820
4	10,001	15,000	48,598
3	15,001	20,000	56,798
2	20,001	25,000	41,246
-	25,001	30,000	-
2	30,001	35,000	65,368
2	35,001	40,000	73,128
2	40,001	45,000	83,500
1	45,001	50,000	46,000
-	50,001	65,000	-
1	65,001	70,000	66,000
1	70,001	75,000	72,000
-	75,001	290,000	-
1	290,001	295,000	290,600
-	295,001	315,000	-
1	315,001	320,000	318,658
-	320,001	400,000	-
1	400,001	405,000	401,009
-	405,001	1,395,000	-
1	1,395,001	1,400,000	1,400,000
-	1,400,001	1,610,000	-
1	1,610,001	1,615,000	1,609,642
-	1,615,001	4,480,000	-
2	4,480,001	4,485,000	8,963,080
-	4,485,001	4,500,000	-
1	4,500,001	4,505,000	4,500,400
988	Total:-		18,700,000

5. Categories of Shareholders	Shares Held	Percentage
5.1 <u>Directors, Chief Executive Officer, and their spouse and minor children.</u>		
MR. SHAIKH ENAM ELLAHI	401,009	2.14
MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
MRS. HUMAIRA SHAHZADA	4,248	0.02
MRS. MONA SHAUKAT	4,248	0.02
MRS. SHAISTA SHAFQAT	4,248	0.02
MR. MUNAWAR IQBAL	2	0.00
MR. S.M. YUSUF	1,100	0.01
MR. KHAWAJA MUHAMMAD ALI	500	0.00
	13,878,835	74.22
5.2 <u>Associated Companies, undertakings and related parties</u>		
M/S. MONELL (PVT) LIMITED	20,900	0.11
M/S. ARH (PVT) LIMITED	1,609,642	8.61
M/S. ELLAHI INTERNATIONAL (PVT) LIMITED	1,400,000	7.49
	3,030,542	16.21
5.3 <u>NIT and ICP</u>		
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	5,170	0.03
INVESTMENT CORPORATION OF PAKISTAN	1,430	0.01
	6,600	0.04
5.4 <u>Banks Development Financial Institutions, Non Banking Financial Institutions.</u>		
	363,760	1.95
	363,760	1.95
5.5 <u>Insurance Companies</u>		
	318,658	1.70
	318,658	1.70
5.6 <u>Modarabas and Mutual Funds</u>		
	72,000	0.39
	72,000	0.39
5.7 <u>Shareholders Holding 10% or more</u>		
MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
	13,463,480	72.00
5.8 <u>General Public</u>		
a. Local	1,021,715	5.46
b. Foreign	Nil	Nil
5.9 <u>Others</u>		
	7,890	0.04
TOTAL:-	18,700,000	100.00

FORM OF PROXY

The Secretary,
NAGINA COTTON MILLS LTD.
2nd Floor, Shaikh Sultan Trust Building No. 2,
26-Civil Lines, Beaumont Road,
Karachi 75530

I/We _____ of _____ being member(s) of **NAGINA COTTON MILLS LTD.**, and holder of _____ Ordinary Shares as per Share Register Folio No. _____ (In case of Central Depository System Account Holder A/c No. _____ Participant I.D. No. _____) hereby appoint _____ of _____ who is member of the company as per Register Folio No. _____ or failing him/her _____ of _____ who is member of the Company as per Register Folio No. _____ as my/our proxy to vote for me/us and on my/our behalf at the 40th Annual General Meeting of the Company to be held on October 31, 2007 and at any adjournment thereof.

Affix Rs. 5/- Revenue Stamp

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

Signed at _____ this the _____ day of _____ 2007

NOTE:

1. If a member is unable to attend the meeting, he/she may sign this form and send it to the Secretary so as to reach him not less than 48 hours before the time of holding the meeting.
2. Account holders and sub-account holders, holding book entry securities of the Company in CDS of Central Depository Company of Pakistan Ltd., who wish to attend the Annual General Meeting are requested to please bring original National Identity Card with copy thereof duly attested by their Bankers for identification purpose.
3. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.