



Annual Report
June 2009

Shahzad Textile Mills Limited

SGS

Certificate SG05/0525

The management system of

Shahzad Textile Mills Ltd.

34 Km, Sheikupura Road, Sheikupura, Pakistan

has been assessed and certified as meeting the requirements of



ISO 9001:2000

For the following activities

**Manufacturing and Export of 100% Cotton, Blended,
Pure Synthetic, Combed, Carded and Double Yarn**

Further clarifications regarding the scope of this certificate and the applicability of
ISO 9001:2000 requirements may be obtained by consulting the organization

This certificate is valid from 16 August 2005 until 15 August 2008
Issue 1. Certified since 16 August 2005

Authorized by

P Earl



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31st ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009

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COMPANY'S INFORMATION

BOARD OF DIRECTORS

CHIEF EXECUTIVE

MR. IMRAN ASLAM

DIRECTORS

MIAN PARVEZ ASLAM
CHAUDHRY HAKIM ALI
MR. RASHID AHMAD
MR. HUMAYUN BAKHT
LT. COL. (R) ABDUL QAYYUM
MR. HASSAN-UD-DIN ANSARI

AUDITORS

HORWATH HUSSAIN CHAUDHURY & CO.
CHARTERED ACCOUNTANTS

BANKERS

NIB BANK LIMITED
HABIB METROPOLITAN BANK LIMITED
SECURITY LEASING CORPORATION LIMITED

REGISTERED OFFICE

19-A, OFF. ZAFAR ALI ROAD,
GULBERG-V, LAHORE.

MILLS UNIT # 1

34TH KM LAHORE SHEIKHUPURA
ROAD, SHEIKHUPURA.

UNIT # 2

7TH KM SHEIKHUPURA FAISALABAD
ROAD, SHEIKHUPURA.

VISION STATEMENT

We aim at seeing our mills to be a model manufacturing unit producing high quality yarn by complying with the requirements of Quality Management System and continuously improving its effectiveness for total customer's satisfaction. We wish to play a leading role in the spinning sector by keeping a substantial presence in the export and local markets.

MISSION STATEMENT

1. To install state of the art machinery and to acquire sophisticated process technology to achieve maximum growth in a competitive quality environment.
2. To make strenuous efforts to enhance profitability of the mills ensuring a fair return to the investors, shareholders and employees of the company.
3. To exercise maximum care for improvement of quality of our products by employing a team of highly skilled technicians and professional managers.
4. To strive hard to develop new markets for the sale of our products in export and local markets.
5. To improve customers' satisfaction level by adhering strictly to quality requirements of our customers in local and export markets and by improving communications with customers for receiving prompt feed backs about quality of our products.
6. To attend to the prompt resolution of customers' complaints by taking timely corrective measures to redress the quality complaints.
7. To improve logistic facilities for our customers dispatch programme and issue all shipments / delivery documents well in time.
8. To make comprehensive arrangements for the training of our workers / technicians.
9. To promote team work, sense of transparency, creativity in our professionals and technical people.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

Shahzad Textile Mills Limited has laid down the following business ethics and principles, the observance of which is compulsory for all the directors and staff members of the company in the conduct of company's business in order to protect and safeguard the reputation and integrity of the company at all levels of its operations. Any contravention of these ethics is regarded as misconduct. The company will ensure that all the executives and subordinate staff members are fully aware of these standards and principles.

1. Conflict of interest

All staff members are expected not to engage in any activity which can cause conflict between their personal interests and company's interests, such as:

- a. In effecting the purchases for the company and selling its products the directors and the staff members are forbidden from holding any personal interest in any organization supplying goods or services to the company or buying its products.
- b. The staff members should not engage in any outside business while serving the company.
- c. Staff members are not permitted to conduct personal business in company's premises or use company's facilities for the same.
- d. If a staff member has direct or indirect relationship with an outside organization dealing with the company he must disclose the same to the management.

2. Confidentiality

All staff members are required not to divulge any secrets / informations of the company to any outsider even after leaving the service of the company unless it is so required by a court of law. During the course of service in the company they should not disseminate any information relating to business secrets of the company without the consent of management.

3. Kickbacks

All staff members are strictly forbidden not to accept any favour, gifts or kick backs from any organization dealing with the company. In case if such a favour is considered, in the interest of the company, the same should be disclosed clearly to the management.

4. Proper Books of Account

All funds, receipts and disbursements should be properly recorded in the books of accounts of the company. No false or fictitious entries should be made or misleading statement pertaining to the company or its operations should be issued. All agreements with agents, dealers and consultants should be made in writing supported with required evidence.

5. Relationship with government officials suppliers, agents etc.

The dealings of the company with Government officials, suppliers, buyers, agents and consultants of the company should always be such that the integrity of the company and reputation

is not damaged. Members having queries in connection with how to deal with these requirements should consult the management.

6. Health and Safety

Every staff member is required to take care of his health and safety and of those working with him. The management is responsible for keeping its staff members insured as per government rules and regulations.

7. Environment

To preserve and protect the environment all staff members are required to operate the company's facilities and processes so as to ensure maximum safety of the adjoining communities, and strive continuously to improve environmental awareness and protections.

8. Alcohol, Drugs

All types of gambling and betting at the company's work places are strictly forbidden. Also bringing alcohols or drugs inside the work places are not allowed. If any staff member, not abiding by these prohibitions will attract disciplinary as well as penal action.

9. Coordination among staff members to maintain discipline

All staff members will work in close coordination with their co-workers, seniors and colleagues. Every member will cooperate with other members so that the company's work could be carried out effectively and efficiently. All cases of non-cooperation among staff members should be reported to the management for necessary and suitable action. Strict disciplinary action will be taken against those staff members who violate the rules and regulations of the company.

10. Workplace harassment

All staff members will be provided an environment that is free from harassment and in which all employees are equally respected. Work place harassment means any action that creates an intimidating, hostile or offensive environment which may include sexual harassment, disparaging remarks based on gender, religious, race or ethnicity.

SIX YEARS FINANCIAL SUMMARY

	2009	2008	2007	2006	2005	2004
	Rupees in thousand					
Sales	1,398,081	1,190,419	1,100,181	909,784	693,800	895,681
Gross profit	104,564	52,107	62,474	104,684	63,800	66,756
Profit / (loss) before taxation	38,834	4,178	(27,954)	29,178	6,852	21,656
Provision for taxation	(5,079)	(4,847)	1,535	(5,622)	(9,932)	(16,064)
Profit / (loss) after tax	33,755	(669)	(26,419)	23,556	(3,080)	5,592
Extraordinary item	-	-	-	-	-	153,082
Net profit / (loss) for the year	33,755	(669)	(26,419)	23,556	(3,080)	158,674
Total assets	1,104,355	1,146,849	977,927	1,052,512	940,390	865,082
Current Liabilities	169,949	383,904	235,258	245,563	206,990	174,359
	934,406	762,945	742,669	806,949	733,400	690,723
Represented by:						
Equity - net	536,983	504,919	410,731	436,448	417,085	424,871
Long term loans & leases	283,776	152,225	230,742	275,342	226,009	188,582
Deferred liabilities	113,647	105,801	101,196	95,159	90,306	77,270
	934,406	762,945	742,669	806,949	733,400	690,723

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 stock exchanges in Pakistan 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 non-executive directors on its Board of Directors. At present the Board of Directors includes four non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. 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 that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
6. The Board has developed a vision/mision statement. Overall corporate strategy and significant policies of the company are under process of approval.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and fixation 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 meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Chief Executive recommends that members of the Board should approach him, should they feel any necessity to conduct other orientation courses in this regard.
10. The Board has approved appointment of CFO, 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 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 Board has formed an audit committee. It comprises three members, of whom two are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company 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 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 principles contained in the Code have substantially complied with.

Lahore
Dated: September 28, 2009

(IMRAN ASLAM)
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 SHAHZAD TEXTILE MILLS LIMITED, to comply with the Listing Regulation No. 37 (Chapter XI) and No. 40 (Chapter XIII) of the Karachi Stock Exchange and Lahore Stock Exchange respectively, 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 controls 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.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately place before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related part transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arms length price or not.

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, 2009.

Lahore

Dated: September 28, 2009

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty First Annual General Meeting of the Shareholders of **SHAHZAD TEXTILE MILLS LIMITED** will be held at Company's Registered Office, 19-A, Off. Zafar Ali Road, Gulberg-V, Lahore on Friday, October 30, 2009 at 12.15 p.m. to transact the following business:

1. To confirm minutes of the Extra Ordinary General Meeting of the Company held on June 17, 2009.
2. To receive and adopt the Audited Accounts of the Company for the year ended June 30, 2009 together with the Directors' and Auditors' Report thereon.
3. To appoint auditors and fix their remuneration for the year ending June 30, 2010. The present auditors M/s Horwath Hussain Chaudhry & Co., Chartered Accountants, retire and offer themselves for re-appointment.
4. **SPECIAL BUSINESS:**

To pass the following Special Resolution in terms of Section 208 of The Companies Ordinance 1984, with or without amendment.

***RESOLVED** That the Company be and is hereby authorized to renew temporary loans/advances to the extent of Rs. 200.000 Million (Rupees Two Hundred Million only) to Shaheen Cotton Mills Limited, an associated Company".

RESOLVED FURTHER that the Chief Executive of the Company is hereby authorized to renew the above temporary loans/advances as short term financing on the terms and conditions given in the statement under section 160(1) (B) annexed herewith and specifically rate of interest will be 1 % above the prevailing short term lending rates of the Commercial banks which will not be less than the borrowing cost of the investing Company.

5. To consider any other business which may be placed before the meeting with the permission of the Chair

The statement under section 160(1) (B) of the Companies Ordinance, 1984 pertaining to the Special Business is annexed with this notice to the members.

By order of the Board

(**HASSAN-UD-DIN ANSARI**)
Company Secretary

Place: Lahore
Dated: October 05, 2009

NOTES:

1. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not less than 48 hours before the time for holding the meeting.
2. The Share Transfer Books of the Company will remain closed from October 26, 2009 to October 30, 2009 (both days inclusive).
3. Any individual Beneficial Owner of CDC entitled to attend and vote at this meeting, must bring his/her NIC or Passport to prove his/her identity and in case of proxy must enclose an attested copy of his/her NIC or Passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. The Shareholders are requested to immediately notify the change in address, if any

**STATEMENT OF MATERIAL FACTS UNDER SECTION 160 (1) (B)
OF THE COMPANIES ORDINANCE, 1984**

Shaheen Cotton Mills Limited is a public limited Company having assets of Rs.632.543 million with paid-up-capital of Rs.147.293 million. The Company manufactures and deals in all types of yarn.

INVESTMENT IN ASSOCIATED COMPANIES

(A) An amount of Rs.200.000 million was approved to Shaheen Cotton Mills as short term financing out of funds available with the Company in last Annual General Meeting held on October 30, 2008 and now is presented for renewal of further one year. The investment would be made at such time as the Chief Executive may think appropriate in the following manner:

(i)	Name of Associated Company	Shaheen Cotton Mills Limited
(ii)	Nature of Loan/advance	Short Term Financing
(iii)	Amount of Loan/Advance	Rs. 200.000 million
(iv)	Rate of mark up	1 % above the prevailing short term lending rates of the Commercial banks which will not be less than the borrowing cost of the investing Company.
(v)	Period for which these loans and advances will be made	Twelve months.
(vi)	Purpose of short term loans and advances	The purpose of short term loans and advances is to provide any immediate requirements of working capital of the borrowing Company.
(vii)	Securities	No security is considered necessary as both the Companies are under common management control.
(viii)	Repayable Schedule	The loans and advances are adjustable within a period of twelve months.
(ix)	Benefits likely to accrue to the Company and its shareholders from loans and advances.	The Investing Company and its shareholders will be benefited in a manner that their investment will fetch a return of 1% above the lending rate of commercial banks.

(B) Brief about Shaheen Cotton Mills Limited, the Investee Company on the basis of last published financial statements for the year ended 30-06-2009:

Net Sales	Rupees	825.316 Million
Equity – Net	Rupees	-73.455 Million
Long term Loans and Lease	Rupees	180.864 Million
Current Ratio		0.62:1
GP Ratio		2.50 %
Net Profit Ratio		-13.01 %

(C) The Directors of Shahzad Textile Mills Limited have no other interest in the investment except that Directors of Shahzad Textile Mills Limited are also Directors and Shareholders in Shaheen Cotton Mills Limited, the Associated Company.

(D) The audited Financial Statements of Shaheen Cotton Mills Limited and Shahzad Textile Mills Limited for the year ended June 30, 2009 and the relevant minutes of both the Companies can be inspected from 10.00 a.m. to 11.30 a.m. in all working days up-to October 26, 2009.

DIRECTORS' REPORT

The directors warmly welcome you to the thirty first annual general meeting of the company and are pleased to present their report along with audited financial statements of the Company and auditors' report for the year ended June 30, 2009.

Financial Results

The financial results of the company for the year under review are as under:

	2009	2008
	Rupees	Rupees
Profit/(Loss) before Taxation	38,834,594	4,177,770
Taxation	(5,079,390)	(4,846,698)
Profit / (Loss) after Taxation	33,755,204	(668,928)
Accumulated profit brought forward	90,239,003	74,939,223
Surplus realized on disposal of revalued property, plant and equipment transferred to retained earnings.	0	7,148,069
Incremental depreciation charged on revalued property, plant and equipment during the year (net of deferred tax) transferred to retained Earnings	8,199,154	8,820,639
Un- appropriated Profit Transferred to Balance Sheet	132,193,361	90,239,003

The above financial data reveals that company has earned pre-tax profit Rs.38.835 million as compared to last years profit Rs.4.178 million. Unfavorable prices of raw materials which are the main constituents of our product like cotton, polyester and viscose have exhibited higher trend through out the year. But increase in sale rates has kept the position in favorable state.

Earning Per Share

The earning per share for the year is Rs.2.49, as compared to loss per share of Rs.(0.05) in the previous year.

Dividend

As the company's liquidity position is not favorably good so the directors have not recommended payment of dividend for the period.

Future Prospects

In the present scenario when prices of raw materials i.e. cotton, polyester and viscose are touching their crest, minimum wage rate is also increased, power crises is still the main problem of the economy, yarn prices are not fetching corresponding increase in local as well as international market due to global recession on textile sector, no favorable change can be forecasted. However, we have focused our attention to bring more improvement in quality of yarn and business relationship with our clients. We are also striving hard to explore new clients in international market in order to enhance export sales and earn foreign exchange for the country.

Management is also favorably considering to consolidate the business into one strength and merge M/s Shaheen Cotton Mills Limited with M/s Shahzad Textile Mills Limited in near future. For swift execution of this enormous work services of a very adept consultant who has extensive experience in this field are already hired.

ISO 9001-2000 Certification

The Company continues to operate the high standard of quality and had obtained latest version of ISO 9001-2000 Certification which is renewed every year after an exhaustive verification that quality control system is being effectively implemented. The quality control certification will help to build up trust of new customers and strengthen the confidence of our old clients.

Related Parties

The transactions between the related parties were made at arm's length prices determined in accordance with the comparable uncontrolled price method except loan obtained from related parties without any finance cost in the interest of the company. The company has fully complied with the best practices of the transfer pricing as contained in the Listing Regulations.

Corporate and Financial Reporting Framework

- a) The financial statement prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of account for the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International accounting standard as applicable in Pakistan have been followed in preparation of financial statements.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. The process of review will continue and any weakness in control will be removed.
- f) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- g) Six years financial summary is annexed.

- h) There are no overdue taxes and levies as on June 30, 2009.”
- i) Pattern of Shareholding as on June 30, 2009 and its disclosure as required by the Code of Corporate Governance is annexed with this report.
- j) All trades in the shares of the Company, if any by the Directors, CEO, CFO, Company Secretary and their spouses and minor children are also annexed.
- k) The role of Chairman and Chief Executive are separate and has clearly defined.
- l) There are no significant doubts upon the Company's ability to continue as a going concern.
- m) The company has adopted best practices of Corporate Governance as per listing regulations of exchanges.

Board of Directors Meeting

During the period under review, six meetings of the Board of Directors were held from July 1, 2008 to June 2009. The attendance of the Board members was as follows:

Name of Directors	No. of Meetings Attended
Mr. Imran Aslam	6
Mian Parvez Aslam	6
Mr. Rashid Ahmed	6
Chaudhry Hakim Ali	6
Mr. Humayun Bakhat	6
Lt.Col.(R) Abdul Qayyum	6
Mr. Hassan-ud-Din -Ansari	5

Audit Committee

The Board of Directors in compliance of Code of Corporate Governance has established an Audit Committee and the following directors are its members.

Mian Parvez Aslam	-	Chairman
Mr. Rashid Ahmad	-	Member
Chaudhry Hakim Ali	-	Member

Corporate Governance

Statement of compliance with the code of Corporate Governance is annexed.

Auditors

The auditors M/s Horwath Hussain Chaudhry & Company, Chartered Accountants, will retire and are eligible for re-appointment as auditors for the company for the next year. The Audit Committee of the board has recommended the re-appointment of M/s Horwath Hussain Chaudhry & Company, Chartered Accountants, as external auditors of the Company for the year ending June 30, 2010.

The labor management relations remained cordial during the year. The directors place on record their appreciation for the dedicated efforts and hard work done by the workers, staff and Officers of the Company during the period under review.

For and on behalf of the Board

Lahore

(Mr. Imran Aslam)
Chief Executive

Dated: October 05, 2009

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of SHAHZAD TEXTILE MILLS LIMITED as at June 30, 2009 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 includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion;
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of 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, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

LAHORE
Dated: October-05-2009

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

BALANCE SHEET AS AT

	Note	2009 Rupees	2008 Rupees
CAPITAL AND LIABILITIES			
Share Capital and Reserves			
Authorized capital: 16,000,000 (2008: 16,000,000) ordinary shares of Rs. 10 each		160,000,000	160,000,000
Issued, subscribed and paid up capital	4	135,525,690	135,525,690
Share premium reserve		5,796,000	5,796,000
Unappropriated profit		132,193,361	90,239,003
		273,515,051	231,560,693
Surplus on Revaluation of Property, Plant and Equipment	5	263,467,933	273,358,514
Non Current Liabilities			
Long term financing	6	281,291,828	139,254,556
Liabilities against assets subject to finance lease	7	2,484,972	12,970,937
Deferred liabilities	8	113,646,669	105,801,152
		397,423,469	258,026,645
Current Liabilities			
Trade and other payables	9	69,454,091	82,132,915
Accrued interest / mark up	10	3,855,015	33,747,692
Short term borrowings	11	83,529,202	117,476,499
Current and overdue portion of non current liabilities	12	10,490,060	144,516,762
Provision for taxation	13	2,620,234	6,029,842
		169,948,602	383,903,710
Contingencies and Commitments	14	-	-
		1,104,355,055	1,146,849,562

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

CHIEF EXECUTIVE

JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
ASSETS			
Non Current Assets			
Property, plant and equipment	15	760,923,111	794,969,780
Capital work in progress	16	20,480,154	14,537,907
Long term investment	17	13,400,000	13,400,000
Long term loan	18	130,000,000	54,392,000
Long term deposits		108,497	2,408,947
		924,911,762	879,708,634
Current Assets			
Stores and spares	19	18,156,154	17,241,959
Stock in trade	20	90,548,115	145,632,759
Trade debts	21	16,815,282	15,610,403
Advances, trade deposits, prepayments and other receivables	22	16,935,161	14,513,746
Short term investments	23	250,152	528,706
Short term loan	24	20,257,958	40,959,419
Current portion of long term loan	25	-	13,137,000
Tax refunds due from government	26	12,564,804	15,037,260
Cash and bank balances	27	3,915,667	4,479,676
		179,443,293	267,140,928
		<u>1,104,355,055</u>	<u>1,146,849,562</u>

DIRECTOR

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2009**

		2009	2008
	Note	Rupees	Rupees
Sales	28	1,398,081,457	1,190,419,345
Cost of sales	29	(1,293,516,972)	(1,138,311,944)
Gross Profit		104,564,485	52,107,401
Operating expenses:			
- Selling and distribution costs	30	(19,454,308)	(21,919,232)
- Administrative expenses	31	(25,577,571)	(23,235,803)
- Other operating charges	32	(2,823,875)	(2,645,921)
- Other operating income	33	11,123,860	42,684,668
		(36,731,894)	(5,116,288)
Operating Profit		67,832,591	46,991,113
Finance cost	34	(28,997,997)	(42,813,343)
Profit before Taxation		38,834,594	4,177,770
Taxation	35	(5,079,390)	(4,846,698)
Profit / (Loss) after Taxation		33,755,204	(668,928)
Earnings per Share - Basic	36	2.49	(0.05)

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

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

	2009	2008
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	38,834,594	4,177,770
Adjustments for:		
- Depreciation	35,113,221	34,172,009
- Gain on disposal of property, plant and equipment - Net	(26,552)	(39,870,426)
- Deficit on revaluation of investments - at fair value through profit and loss	278,554	241,337
- Excess liabilities written back	(1,901,135)	
- Mark up from associated undertaking	(19,368,113)	(8,155,065)
- Provision for gratuity	8,201,840	5,794,001
- Provision for doubtful debts	440,591	2,154,584
- Provision for workers' profit (participation) fund	1,654,730	
- Interest on workers' profit participation fund	113,345	
- Finance cost	48,252,785	50,968,408
	72,759,246	45,214,848
Operating profit before working capital changes	111,593,840	49,392,618
Decrease / (Increase) in current assets:		
- Stores and spares	(914,195)	(1,173,686)
- Stock in trade	55,084,644	(87,165,799)
- Trade debts	(1,645,470)	11,424,640
- Advances, trade deposits, prepayments and other receivables	(1,927,969)	1,997,070
- Tax refunds due from government	844,719	(1,318,046)
(Decrease) / increase in current liabilities:		
- Trade and other payables	(10,089,870)	22,099,213
	41,351,859	(34,136,608)
Cash generated from operations	152,945,699	15,256,010
Income tax paid		
Gratuity paid	(3,761,507)	(4,446,728)
Finance cost paid	(4,490,734)	(2,399,502)
Workers' profit (participation) fund paid	(28,501,309)	(29,102,027)
	(2,455,894)	
Net Cash from / (used in) Operating Activities	113,736,255	(20,692,247)
CASH FLOW FROM INVESTING ACTIVITIES		
Property, plant and equipment	(1,200,000)	-
Capital work in progress	(5,942,247)	(17,488,630)
Long term investment	-	(5,800,000)
Long term loan	-	
Short term loans	(62,471,000)	
Mark up received from associated undertaking	20,701,461	(38,327,137)
Proceeds from disposal of property, plant and equipment	15,517,897	7,883,283
	160,000	51,005,000
Net Cash used in Investing Activities	(33,233,889)	(2,727,484)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term loans from related parties	(623,119)	10,000,000
Repayment of long term loan	(30,600,000)	(2,963,016)
Liabilities against assets subject to finance lease	(15,895,959)	(16,614,844)
Short term finances	(33,947,297)	35,278,362
Net Cash (used in) / from Financing Activities	(81,066,375)	25,700,502
Net (Decrease) / Increase in Cash and Cash Equivalents	(54,009)	2,280,771
Cash and cash equivalents at the beginning of the year	4,479,676	2,196,905
Cash and Cash Equivalents at the End of the Year	3,915,667	4,479,676

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2009

	Share Capital	Share Premium	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2007	135,525,690	5,796,000	74,939,223	216,260,913
Net loss for the year	-	-	(668,928)	(668,928)
Surplus realized on disposal of revalued property, plant and equipment transferred to retained earnings	-	-	7,148,069	7,148,069
Transfer from surplus on revaluation of property, plant and equipment on incremental depreciation charged to current year - net of deferred tax	-	-	8,820,639	8,820,639
Balance as at June 30, 2008	135,525,690	5,796,000	90,239,003	231,560,693
Net profit for the year	-	-	33,755,204	33,755,204
Transfer from surplus on revaluation of property, plant and equipment on incremental depreciation charged to current year - net of deferred tax	-	-	8,199,154	8,199,154
Balance as at June 30, 2009	<u>135,525,690</u>	<u>5,796,000</u>	<u>132,193,361</u>	<u>273,515,051</u>

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

Note 1

The Company and its Operations

Shahzad Textile Mills Limited is a Public Limited Company incorporated in Pakistan under the Companies Act, 1913 (now the Companies Ordinance, 1984). Its shares are quoted on Karachi and Lahore Stock Exchanges of Pakistan. The Company manufactures and deals in all types of yarn. The registered office of the Company is situated at 19-A, Zafar Ali Road, Guberg - V, Lahore.

Note 2

Basis of Preparation

2.1 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 or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These accounts have been prepared under the historical cost convention except certain property, plant and equipment and investments that have been stated at revised amounts and fair values, respectively.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IASs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and related assumptions are reviewed on an ongoing basis. Accounting estimates are revised in the period in which such revisions are made.

Significant management estimates in these financial statements relate to the useful life of property, plant and equipment, provisions for doubtful receivables, provisions for defined benefit plans, slow moving inventory, obsolete inventory, export claims and taxation. However, the management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in the financial statements.

2.5 New / revised Standards and Interpretations

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards and interpretations.

Standards and Interpretation

	Effective date (accounting period beginning on or after)
IAS 1 - Presentation of Financial Statements (Revised)	Jan 01, 09
IAS 23 - Borrowing Costs (Revised)	Jan 01, 09
IAS 27 - Consolidated and Separate Financial Statements (Revised)	Jan 01, 09
IAS 32 - Financial Instruments: Presentation (Amended)	Jan 01, 09
IAS 39 - Financial Instruments: Recognition and Measurement (Amended)	Jan 01, 09
IFRS 2 - Share Based payments (Amended)	Jan 01, 09
IFRS 3 - Business Combinations (Revised)	Jul 01, 09
IFRS 8 - Operating Segments	Jan 01, 09
IFRIC 15 - Agreement for the Construction of Real Estate	Jan 01, 09
IFRIC 16 - Hedge of Net Investment in a Foreign Operation	Oct 01, 08
IFRIC 17 - Distribution of Non-Cash Assets to Owners	Jul 01, 09
IFRIC 18 - Transfer of Assets from Customers	Jul 01, 09

The Company expects that the adoption of above standards and interpretations will have no material impact on the Company's financial statements in the period of initial application.

Note 3
Significant Accounting Policies

3.1 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and of which a reliable estimate can be made.

3.2 Staff retirement benefits

Defined benefit plan

The Company operates an unfunded gratuity scheme covering its permanent employees. Employees are eligible for benefits under this scheme after completion of one year of continuous service (6 or more months of service are counted as one year). The benefit is calculated based upon the number of completed years of service and last drawn gross salary.

3.3 Taxation

Current

The charge for taxation for the year on taxable profit is based on applicable tax rates after taking into account all tax credits and rebates available, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent of potential available taxable profit against which temporary differences, unused tax losses and tax credits can be utilized.

3.4 Trade and other payables

Liabilities for trade and other amounts payable 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.

3.5 Property, plant and equipment

Owned

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land which is stated at revalued amount and buildings and plant and machinery which are stated at revalued amounts less accumulated depreciation.

The management reviews market value of land, building and plant and machinery at each balance sheet date to ascertain whether the fair value of revalued assets has differed materially from the carrying value of revalued assets, thus necessitating further revaluation.

Depreciation on property, plant and equipment has been provided for using the reducing balance method at the rates specified in Note 15. Depreciation on additions is charged from the month in which the asset is available for use upto the month in which the asset is disposed off. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of property, plant and equipment, if any, is shown in the profit and loss account.

Leased

The Company accounts for assets acquired under finance lease by recording assets and related liabilities. Principal values are determined on the basis of discounted value of the total minimum lease payments to be paid by the Company. Finance costs are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on outstanding liabilities. Depreciation is charged using the reducing balance method at the rates specified in Note 15 to write off the cost of assets over their estimated useful life.

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

3.6 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. If any such indication exists, the recoverable amount of the asset is estimated and impairment loss is recognized in the profit and loss account.

3.7 Investments

In associated undertakings

Investments in associates are accounted for using the equity method. This method is applied from the date when significant influence is established until the date when that significant influence ceases.

Investments in associates, not accounted for under the equity method are classified as "Available for Sale".

Other investments

Investments are initially recognized at cost, comprising the consideration paid and cost of transaction except in the case of investment at fair value through profit or loss where transaction costs are charged to profit and loss account when incurred. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining the fair value, while for unquoted securities, cost is considered as fair value of securities.

The classification is made on the basis of intended purpose for holding such investments. These are measured at the balance sheet date in accordance with the requirements of IAS - 39 (Financial Instruments: Recognition and Measurement) described as under:

Available for sale

These are stated at fair value and changes in carrying value are recognized in equity until investment is sold or determined to be impaired at which time the accumulated gain or loss previously recognized in equity is included in the profit and loss account.

At fair value through profit or loss

These are securities which are acquired for the purpose of generating profit from short term fluctuations in market price or dealer's margin, securities in a portfolio in which a pattern of short term profit taking exists or derivatives other than those held as hedging instruments.

Held to maturity

These are stated at amortized cost less impairment loss, if any, recognized to reflect irrecoverable amounts. Impairment loss is charged to the profit and loss account.

3.8 Stores and spares

These are valued at lower of moving average cost and net realizable value, except for items in transit that are valued at cost comprising the invoice value plus incidental charges paid thereon.

3.9 Stock in trade

These are valued at lower of cost and net realizable value and cost is determined by using the following basis:

Raw materials	-	At average cost.
Material in transit	-	At cost comprising invoice value plus incidental charges paid thereon.
Work in process	-	At estimated average manufacturing cost.
Finished goods	-	At average manufacturing cost.
Wastes	-	At net realizable value.

Manufacturing cost in relation to work-in-process and finished goods comprises cost of material, labour and appropriate manufacturing overheads.

Net realizable value signifies the selling price at which goods in stock could be currently sold less any further costs which would be incurred to complete the sale.

3.10 Trade debts

All outstanding receivables are reviewed at the balance sheet date. The Company recognizes and carries these receivables at original invoice amount less an allowance for uncollectible amounts, if any. Bad debts are written off as incurred and provision is made against debts considered doubtful when the collection of full amount is no longer probable.

3.11 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and saving accounts.

3.12 Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of an instrument. It ceases to recognize financial assets when it loses control of contractual rights and in case of financial liability when the liability is extinguished. Any gain or loss on subsequent remeasurement / derecognition is charged to income.

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.13 Foreign currency translation

Assets and liabilities in foreign currency are stated in Pak Rupees at the rates of exchange ruling on the balance sheet date or rate of exchange fixed under contractual agreements. Transactions in foreign currency are translated at the exchange rate prevailing at the date of transaction. All exchange differences are included in the profit and loss account.

3.14 Related party transactions

Transactions with related parties are based on the transfer pricing policy that all transactions between the Company and the related party or between two or more segments of the Company are at arm's length prices using the comparable uncontrolled price method except in circumstances where it is in the interest of the Company to not to do so.

3.15 Revenue recognition

- Local sales are recorded on dispatch of goods to customers.
- Export sales are recorded at the time of receipt of bill of lading.
- Dividend on equity investments is recognized as income when the Company's right to receive the dividend is established.

3.16 Segment reporting

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments.

3.17 Borrowing costs

Borrowing costs are charged to income as and when incurred except those costs that are directly attributable to acquisition, construction or production of qualifying assets and are capitalized as part of the cost of assets.

3.18 Dividends

Dividend are recognized as a liability in the period in which these are declared.

Note 4**Issued, Subscribed and Paid Up Capital**

2009		2008		2009	2008
No. of shares				Rupees	
12,240,569	12,240,569	Ordinary shares of Rs. 10 each fully paid in cash		122,405,690	122,405,690
1,312,000	1,312,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares		13,120,000	13,120,000
<u>13,552,569</u>	<u>13,552,569</u>			<u>135,525,690</u>	<u>135,525,690</u>

- 4.1 2,608,200 (2008: 2,608,200) ordinary shares of the Company are held by Shaheen Cotton Mills Limited, an associated undertaking, as at the balance sheet date.

Note 5**Surplus on Revaluation of Property, Plant and Equipment**

	Note	2009 Rupees	2008 Rupees
Land - freehold		106,496,036	15,755,313
Buildings on freehold land		<u>17,468,878</u>	<u>18,629,271</u>
Plant and machinery		149,413,600	190,085,656
Surplus on revaluation of land	5.1	273,358,514	194,470,239
Deferred taxation relating to export	5.1	-	97,360,131
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to retained earnings	5.2	(1,691,427)	(2,503,148)
Surplus realized on disposal of revalued property, plant and equipment (net of deferred tax) transferred to retained earnings		(8,199,154)	(8,820,639)
		<u>263,467,933</u>	<u>273,358,514</u>

- 5.1 Revaluation of land, buildings and plant and machinery was carried out by an approved valuer as at September 30, 1995 resulting in revaluation surplus of Rs. 435,412 million. The following basis were used for revaluation:

	Market value	Residual value
Land		
Building		
Plant and machinery		

Freehold land was further revalued by an approved valuer as at March 28, 2008 that resulted in revaluation surplus of 97,360 million. Market values of land in the vicinity of the factory area were used as basis of valuation.

- 5.2 This represents amount transferred to deferred tax liability due to change in proportion of local and export sales resulting in change in estimate of deferred tax on surplus on revaluation of property, plant and equipment.

Note 6
Long Term Financing

	Note	2009 Rupees	2008 Rupees
Loans from banking company - Secured			
NIB Bank Limited	6.1	261,914,947	119,254,556
Loans from related parties - Unsecured			
Directors' loan		10,000,000	10,000,000
Others		9,376,881	10,000,000
		19,376,881	20,000,000
		<u>281,291,828</u>	<u>139,254,556</u>
6.1 Loans from banking company - NIB Bank Limited			
- Term Finance - I		160,507,409	160,507,409
- Term Finance - II		45,940,632	45,940,632
- State Bank of Pakistan's LTF - EOP Scheme		36,422,773	39,385,789
- mark up Frazed		49,644,133	-
		<u>292,514,947</u>	<u>245,833,830</u>
Payments / adjustments during the year		(30,600,000)	(2,963,016)
Current and overdue portion transferred to current liabilities		-	(123,616,258)
		<u>261,914,947</u>	<u>119,254,556</u>

- 6.1.1 This represents long term financing obtained from NIB Bank Limited (formerly PICIC). During the year, the Company reached an interim period agreement with the Bank to restructure / reschedule its outstanding liabilities. As per the terms of the interim period agreement, the Company paid Rs. 30,600 million towards its outstanding liabilities through fixed monthly instalments of Rs. 3.40 million upto June 30, 2009 and the payment of its principal and mark up, both overdue and not yet due, were frozen.

Subsequent to the balance sheet date, the Company reached a rescheduling agreement with the Bank as under:

- The loan shall be secured against first charge of Rs. 419.27 million on fixed assets of the Company and personal guarantees of sponsoring directors of the Company.
- The loan shall be repayable by April 2014 in monthly instalments as under:

	Rupees
Gross amount payable from July 01, 2009 to December 31, 2009	18,000,000
Gross amount payable from January 01, 2010 to December 31, 2010	40,500,000
Gross amount payable from January 01, 2011 to December 31, 2011	49,500,000
Gross amount payable from January 01, 2012 to December 31, 2012	58,967,675
Gross amount payable from January 01, 2013 to December 31, 2013	72,000,000
Gross amount payable from January 01, 2014 to April 30, 2014	22,881,281

- Mark up on loan would be levied effective from January 1, 2010 and worked out @ 3 months KIBOR minus 1.5% per annum. In case of default in payment of three consecutive instalment, the entire package would be withdrawn and mark up would be charged @ 3 months KIBOR plus 4.25% - 4.50% per annum with retrospective effect.
 - State Bank of Pakistan's LTF - EOP loan would be settled subsequent to the settlement of Term Finances I & II.
 - Overdue mark up as at June 30, 2009 and that accruing upto December 31, 2009 would be frozen and waived upon the payment of the outstanding principal and mark up in accordance with the rescheduling agreement.
- 6.2 This represents unsecured and interest free loan obtained from related parties to meet the working capital requirements of the Company. The repayment terms have not yet been settled.

Note 7

Liabilities Against Assets Subject to Finance Lease

	2009	2008
	Rupees	Rupees
Future gross minimum lease payments and the period in which they will become due are as under:		
Overdue	-	2,705,592
2009	-	16,117,314
2010	11,501,181	11,497,296
2011	99,096	99,096
2012	66,064	66,064
	<u>11,666,341</u>	<u>30,485,362</u>
Security deposits	2,339,000	7,339,000
Gross minimum lease payments	14,005,341	37,824,362
Financial charges not currently due	(1,030,309)	(3,952,921)
Present value of minimum lease payments	12,975,032	33,871,441
Overdue and current portion shown under current liabilities	<u>(10,490,000)</u>	<u>(20,900,504)</u>
	<u>2,484,972</u>	<u>12,970,937</u>

Finance lease arrangement have been entered into with various leasing companies for plant and machinery and vehicle. Monthly lease rentals include finance cost ranging from 12.75% to 18.26% (approximately) per annum which are used as discounting factors. Taxes, repairs, replacements and insurance costs are borne by the Company.

These leases are secured against cash deposits of Rs. 2,339 million (2008: Rs. 7,339 million), demand promissory notes and personal guarantees of sponsoring directors of the Company. The security deposits shall be adjusted against the residual value along with the last installment as the management intends to retain leased assets at the expiry of the lease term.

Reconciliation between total of minimum lease payments and their present value is as under:

Gross minimum lease payments:		
- Due not later than one year	13,801,181	23,822,906
- Due later than one year but not later than five years	294,160	14,001,456
	<u>14,095,341</u>	<u>37,824,362</u>
Present value of minimum lease payments:		
- Due not later than one year	12,790,060	20,900,504
- Due later than one year but not later than five years	184,972	12,970,937
	<u>12,975,032</u>	<u>33,871,441</u>

Note 8

Deferred Liabilities

		2009	2008
	Note	Rupees	Rupees
Deferred tax - net	8.1	102,665,289	98,530,878
Staff retirement benefits - Gratuity	8.2	10,981,380	7,270,274
		<u>113,646,669</u>	<u>105,801,152</u>

8.1 Deferred tax - Net

Credit / (Debit) balance arising in respect of:

- Accelerated tax depreciation		83,385,661	67,367,764
- Surplus on revaluation of property, plant and equipment		58,473,583	63,148,116
- Recognized losses	8.1.1	(38,757,813)	(38,757,813)
- Staff retirement benefits and others		(436,142)	6,752,811
		<u>102,665,289</u>	<u>98,530,878</u>

8.1.1 The management being prudent has not accounted for deferred tax asset on losses amounting to Rs. 93.544 million (2008: Rs. 74.658 million).

8.2 Staff retirement benefits - Gratuity

Latest actuarial valuation of retirement benefits payable was carried out as at June 30, 2009 by an independent actuary using the following significant assumptions:

	2009	2008
Discount rate	12%	12%
Expected rate of salary increase in future years	11%	11%
Average expected remaining working life time of employees	5 years	4 years
Actuarial valuation method		

Basing upon the actuarial valuation, the Company's liability works out to be as under:

Balance sheet liability as previously reported	7,270,274	3,965,775
Expense for the year	8,201,840	5,704,001
	<u>15,472,114</u>	<u>9,669,776</u>
Benefits paid to employees	(8,490,734)	(2,399,502)
	<u>10,981,380</u>	<u>7,270,274</u>

Reconciliation

Present value of defined benefit obligation	10,255,631	7,483,855
Unrecognized actuarial gain / (loss)	725,749	(213,581)
Liability recognized in accounts	<u>10,981,380</u>	<u>7,270,274</u>

Charge for the year

Current service cost	7,303,777	5,307,423
Interest cost	898,063	396,578
	<u>8,201,840</u>	<u>5,704,001</u>

Note 9

Trade and Other Payables

	Note	2009 Rupees	2008 Rupees
Creditors for:			
- Goods supplied		13,095,240	25,140,523
- Services		17,253,349	18,646,708
Accrued liabilities		20,076,918	19,456,046
Provision for repair and maintenance of gas generators	28.1	14,587,666	-
Advances from customers		1,591,917	15,661,429
Workers' (profit) participation fund	9.1	1,654,730	2,342,549
Unclaimed dividend		217,781	217,781
Unclaimed wages		976,490	967,879
		<u>69,454,091</u>	<u>82,132,915</u>

9.1 Workers' (profit) participation fund

Balance at the beginning of the year	2,342,549	2,120,125
Provision during the year	1,654,730	-
Interest on funds utilized in the Company's business	113,345	222,424
	<u>4,110,624</u>	<u>2,342,549</u>
Paid during the year	(2,455,894)	-
	<u>1,654,730</u>	<u>2,342,549</u>

Note 10

Accrued Interest / Mark-up

	2009	2008
	Rupees	Rupees
Long term financing (refer to Note 6.1)	49,644,133	29,485,281
Frozen mark up	(49,644,133)	-
	-	29,485,281
Liabilities against assets subject to finance lease	276,488	415,193
Short term borrowings	3,578,527	3,847,218
	<u>3,855,015</u>	<u>33,747,692</u>

Note 11

Short Term Borrowings

		2009	2008
	Note	Rupees	Rupees
From banking companies - Secured			
Cash / packing finances	11.1	63,385,643	117,476,499
Unpresented cheques	11.2	143,559	-
		<u>63,529,202</u>	<u>117,476,499</u>

11.1 These represent utilized portion of funded and unfunded short term finance facilities of Rs. 390 million (2008: Rs. 365 million) available from various banks under mark up arrangements. These facilities shall expire on various dates latest by September 30, 2009. Mark up on these facilities ranges from 3 months (average ask side) KIBOR plus 2% with a floor of 12.00% (2008: 11.96% to 12.00%), payable quarterly. The aggregate short term finances are secured by first charge on stocks, machinery and book debts, registered hypothecation of stocks, book debts, lien over export and import documents and personal guarantee of sponsoring directors of the Company.

11.2 This represents charges issued in excess of bank balances that have not been presented at the balance sheet date but cleared subsequently.

Note 12

Current and Overdue Portion of Non Current Liabilities

	2009	2008
Long term financing (refer to Note 6.1)	-	123,616,258
Liabilities against assets subject to finance lease	10,490,060	20,900,504
	<u>10,490,060</u>	<u>144,516,762</u>

Note 13

Provision for Taxation - Net

	2009	2008
	Rupees	Rupees
Opening balance	6,029,842	5,566,707
Provision:		
- Current year	2,620,234	6,029,842
- Prior years	16,172	19,373
	2,636,406	6,049,215
Payments / adjustments against advance tax and refunds	(6,046,014)	(5,586,080)
	<u>2,620,234</u>	<u>6,029,842</u>

13.1 Income tax assessments for assessment years-1998-1999 to 2002-2003 are pending before ITAT, however, additional tax liability in respect of these years is not expected to occur. Assessments for Tax Years 2003 onward are deemed to be accepted under the self-assessment scheme.

Note 14

Contingencies and Commitments**Contingencies**

- The Company has provided bank guarantee in favour of Sui Northern Gas Pipeline Limited amounting to Rs. 20,306 million (2008: Rs. 20,306 million) on account of payment of dues against consumption of natural gas.
- The Income Tax Department has filed an appeal in the Lahore High Court, Lahore against the Company regarding tax liability amounting to Rs. 10,057 million in respect of various tax years. The provision for additional liability has not been incorporated in these financial statements as the management believes that the Company's view point shall be upheld.

Commitments

- Commitments / contracts for capital expenditure outstanding as at the balance sheet date amount to Rs. 13,246 million (2008: Nil).
- Letters of credit and commitments / contracts for other than capital expenditure outstanding as at the balance sheet date amount to Rs. 15,618 million (2008: Rs. 1,685 million), approximately.

NOTE 15
Property, Plant and Equipment

Description	Cost / Revalued Amounts			Depreciation			Book Value as at 30-06-2009
	As at 01-07-2008	As at 30-06-2009	Rate %	As at 01-07-2008	For the Year	Disposals	
	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees
Owned							
Land - freehold	109,837,500	-	-	-	-	-	109,837,500
Buildings on freehold land	137,942,130	-	5	50,841,178	4,355,048	-	55,196,226
Plant and machinery	841,515,380	51,200,000	5-10	391,874,966	24,766,357	5,801,094	422,442,437
Power house	88,131,248	-	5	15,366,937	3,638,216	-	19,005,153
Furniture and fixtures	1,122,631	-	10	1,063,594	5,904	-	1,069,498
Vehicles	7,685,759	(598,900)	20	4,453,697	619,723	(465,452)	4,607,968
Electric installations	11,755,588	-	10	7,508,597	424,699	-	7,933,296
Computers and equipment	1,181,980	-	20	832,935	69,809	-	902,744
Arms and ammunition	410,775	-	7	85,016	22,803	-	107,819
Fire fighting equipment	24,225	-	10	20,072	4,153	-	24,225
	1,959,607,214	51,200,000		472,047,012	33,906,712	5,335,642	511,269,366
	(598,900)	-		-	-	-	738,918,048
Leased							
Plant and machinery	73,000,000	(50,000,000)	5	5,896,928	1,145,208	(5,801,094)	1,241,042
Vehicle	410,500	-	20	103,994	61,301	-	165,295
	73,410,500	(50,000,000)		6,000,922	1,206,509	(5,801,094)	1,406,337
Total Rupees June 30, 2009	1,273,017,714	1,200,000		478,047,934	35,113,221	(465,452)	512,695,703
	(598,900)	-					760,923,111
Total Rupees June 30, 2008	1,130,374,166	62,280,270		449,738,224	34,172,009	(5,862,299)	478,047,934
	(10,996,873)	-					794,969,780

The shareholders of the Company in the Extraordinary General Meeting held on June 17, 2009, further resolved to convert short term loan of Rs. 75,608 million into long term loan, extending the repayment schedule of total long term loan to seven years comprising twenty quarterly instalments commencing from July 01, 2011 and charging interest at the rate equivalent to the average borrowing cost of the Company on its long term loans.

Note 19

Stores and Spares

		2009	2008
	Note	Rupees	Rupees
Stores	19.1	12,840,645	11,579,136
Spares		<u>5,315,509</u>	<u>5,662,823</u>
		<u>18,156,154</u>	<u>17,241,959</u>

19.1 This includes stores in transit amounting to Rs. Nil (2008: Rs. 0.223 million) as at the balance sheet date.

Note 20

Stock in Trade

		2009	2008
	Note	Rupees	Rupees
Raw materials	20.1	61,273,613	94,806,893
Work in process		9,565,302	11,744,772
Finished goods		<u>19,709,200</u>	<u>39,081,094</u>
		<u>90,548,115</u>	<u>145,632,759</u>

20.1 Goods in transit amount to Rs. Nil (2008: Rs. 4.279 million) as at the balance sheet date

20.2 Stocks include an amount of Rs. 54.5 million (2008: Rs. 65.0 million) approximately, which are pledged against short term borrowings (refer to Note 10).

Note 21

Trade Debts

		2009	2008
		Rupees	Rupees
Local debts (Unsecured - considered good)		6,127,559	8,698,389
Local debts (Unsecured - considered doubtful)		2,595,175	2,154,584
		<u>(2,595,175)</u>	<u>(2,154,584)</u>
Provision for doubtful debts		6,127,559	8,698,389
Foreign debts (Unsecured - considered good)		<u>10,687,723</u>	<u>6,912,014</u>
		<u>16,815,282</u>	<u>15,610,403</u>

Note 22

Advances, Trade Deposits, Prepayments and Other Receivables

		2009	2008
	Note	Rupees	Rupees
Advances - Considered good:			
- Employees - Net	22.1	355,661	288,415
- Suppliers and others		4,087,381	2,179,153
- Income tax		3,545,179	4,201,949
L/c margin		790,983	4,456
Export margin deposit		60,000	26,111
Lease margin deposit		2,300,000	5,000,000
Prepayments		86,208	863,352
Mark up receivable from associated undertaking		5,629,947	1,779,731
Profit on bank account		75,802	75,802
Others		<u>4,000</u>	<u>94,777</u>
		<u>16,935,161</u>	<u>14,513,746</u>

22.1 Amount due from chief executive, directors and executives as at the balance sheet date was Nil (2008: Nil).

Note 23

Short Term Investments

	2009	2008
	Rupees	Rupees
At fair value through profit or loss		
Related party - Quoted		
	23.1	
Sajjad Textile Mills Limited	52,000	39,520
- 26,000 (2008: 26,000) fully paid ordinary shares of Rs. 10 each		
- Market value per share is Rs. 2 (2008: Rs. 1.52)		
- Cost of investment Rs. 0.147 million (2008: Rs. 0.147 million)		
Others - Quoted		
Sargodha Spinning Mills Limited	36,120	97,860
- 42,000 (2008: 42,000) fully paid ordinary shares of Rs. 10 each		
- Market value per share is Rs. 0.86 (2008: Rs. 2.33)		
- Cost of investment Rs. 0.09 million (2008: Rs. 0.09 million)		
Nishat (Chunian) Mills Limited	594	1,513
- 69 (2008: 63) fully paid ordinary shares of Rs. 10 each including 30 (2008: 24) ordinary shares received as bonus shares.		
- Market value per share is Rs. 8.61 (2008: Rs. 24.01)		
- Cost of investment Rs. 908 (2008 : Rs. 908)		
Crescent Fibres Limited	161,438	389,813
- 26,250 (2008: 26,250) fully paid ordinary shares of Rs. 10 each including 1,250 (2008 : 1,250) ordinary shares received as bonus shares.		
- Market value per share is Rs. 6.15 (2008: Rs. 14.85)		
- Cost of investment Rs. 0.083 million (2008: Rs. 0.083 million)		
	<u>250,152</u>	<u>528,706</u>

- 23.1 Investments are measured at fair value in accordance with IAS - 39 (Financial Instruments: Recognition and Measurement). The quoted market value in an active market is considered as fair value of investment. The resulting difference between cost and fair value of investment has been recognized as deficit.

Note 24

Short Term Loan

	2009	2008
	Rupees	Rupees
Short term loan to associated undertaking		
- (Considered good)	24.1	20,257,958
		<u>40,959,419</u>

- 24.1 This represents short term loan facility of Rs. 200 million (2008: Rs. 200 million) sanctioned to Shaheen Cotton Mills Limited, approved through special resolution passed in the annual general meeting by the shareholders of the Company held on October 30, 2008. It carries mark up at the rate of 1% above the prevailing short term lending rates of commercial banks which shall not be less than the average borrowing cost of the Company. Effective mark up charged during the year on this facility approximated to 17.17% p.a. (2008: 12.96% p.a.). The shareholders of the Company in the Extraordinary General Meeting held on June 17, 2009, have resolved to convert short term loan of Rs. 75.608 million into long term loan as explained in Note 18.1 above.

- 15.1 Revaluation of land, building and plant and machinery was carried out by independent valuers as fully explained in Note 5. Had there been no revaluation, the cost, accumulated depreciation and book values of revalued assets would have been as follows :

	As at June 30, 2009		
	Cost	Accumulated Depreciation	Book value
	Rupees	Rupees	Rupees
Land - freehold	3,341,464	-	3,341,464
Buildings on freehold land	95,465,039	37,272,966	58,192,073
Plant and machinery	529,292,323	248,912,028	279,380,295
	627,099,826	286,184,994	340,914,832

- 15.2 Depreciation charge for the year has been allocated as under:

Note	2009	2008
	Rupees	Rupees
Cost of sales	34,390,829	33,239,960
Administrative expenses	722,392	932,049
	35,113,221	34,172,009

15.3 Disposal of property, plant and equipment

Particulars	Cost / Revalued amount	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Vehicle - Corus Ln-5452	596,900	465,452	133,448	160,000	26,552	Negotiation	Mr. Jamil Anjum Mujahid Haidarov Doctor Naveed Street Prest Nagar Faisal District Kasur

Note 16

Capital Work in Progress

	2009	2008
	Rupees	Rupees
Buildings on freehold land		
Opening balance	508,907	25,133,635
Additions during the year	1,538,047	9,473,359
	2,046,954	34,606,994
Transferred to buildings on freehold land	-	(34,098,087)
Closing balance	2,046,954	508,907
Plant and machinery		
Opening balance	-	23,459,912
Additions during the year	-	4,722,271
	-	28,182,183
Transferred to plant and machinery	-	(28,182,183)
Closing balance	-	-
Advance for purchase of office	18,433,200	14,029,000
	<u>20,480,154</u>	<u>14,537,907</u>

Note 17

Long Term Investment

	2009	2008
	Rupees	Rupees
Available for sale		
Related party - Unquoted		
Sargodha Jute Mills Limited:		
- 2,030,000 (2008: 2,030,000) fully paid ordinary shares of Rs. 10 each	13,400,000	13,400,000

17.1 The investment has been measured at cost which is considered to be the fair value of the investment being an unquoted company.

Note 18

Long Term Loan

	2009	2008
	Rupees	Rupees
Loan to associated undertaking (Unsecured - Considered good) 18.1	130,000,000	67,529,000
Less: Current portion	-	(13,137,000)
	<u>130,000,000</u>	<u>54,392,000</u>

18.1 This represents conversion of trade receivable from Shaheen Cotton Mills Limited, an associated undertaking, into long term loan through special resolution passed by the shareholders in the Annual General Meeting of the Company held on January 28, 2003. This loan was repayable in twelve half yearly installments after a grace period of two years.

The repayment terms were revised as a result of special resolution passed in the Extraordinary General Meeting held on August 16, 2004 that required the repayment of outstanding balance in twelve quarterly installments commencing from October 01, 2004. However, the shareholders of the Company in the Extraordinary General Meeting held on March 13, 2006, resolved to further extend the repayment schedule to seven years comprising twelve half yearly installments commencing from April 01, 2007 and charge interest at the rate 7.5% p.a.

Note 25

Tax Refunds Due from Government

	2009	2008
	Rupees	Rupees
Sales tax	2,508,255	3,352,974
Income tax	10,056,549	11,684,286
	<u>12,564,804</u>	<u>15,037,260</u>

Note 26

Cash and Bank Balances

	2009	2008
	Rupees	Rupees
Cash in hand		
With banks in:	235,651	369,978
- Current accounts	2,870,016	3,299,698
- Deposit account	810,000	810,000
	3,680,016	4,109,698
	<u>3,915,667</u>	<u>4,479,676</u>

Note 27

Sales - Net

	2009	2008
	Rupees	Rupees
Yarn:		
- Local less returns	1,143,396,916	825,721,086
- Export	262,023,421	365,326,336
Duty draw back	74,417	420,153
Wastes	12,768,734	14,921,021
	1,418,263,488	1,206,388,596
Less: Commission to selling agents	(20,182,031)	(15,969,251)
	<u>1,398,081,457</u>	<u>1,190,419,345</u>

Note 28

Cost of Sales

		2009	2008
	Note	Rupees	Rupees
Raw materials consumed		937,286,237	894,394,882
Stores and spares consumed		25,354,666	30,610,082
Packing materials consumed		23,283,902	20,029,188
Salaries, wages and other benefits	28.1	103,822,629	90,297,465
Fuel and power		126,223,420	85,768,876
Insurance		5,255,253	4,873,233
Other manufacturing expenses		78,104	222,797
Repairs and maintenance	28.2	16,470,568	1,427,820
Depreciation	15.2	34,380,828	33,239,960
		<u>1,271,965,608</u>	<u>1,160,864,303</u>
Opening work in process		11,744,772	10,955,879
Closing work in process		(9,565,302)	(11,744,772)
		2,179,470	(788,893)
		1,274,145,078	1,180,075,410
Cost of goods manufactured:			
Opening finished goods		39,081,094	17,317,628
- Closing finished goods		(19,209,200)	(39,081,094)
		19,371,894	(21,763,466)
		<u>1,290,516,972</u>	<u>1,138,311,944</u>

- 28.1 salaries and benefits include Rs. 6.481 million (2008: Rs. 4.507 million) on account of staff retirement benefits.
- 28.2 This includes an amount of Rs. 14.588 million on account of repairs and maintenance of generators as the generators have completed the prescribed threshold running.

Note 29

Selling and Distribution Costs

	2009	2008
	Rupees	Rupees
Freight and octroi	2,451,765	2,607,150
Export sale expenses	15,847,019	19,312,082
Export claims	1,155,524	-
	<u>19,454,308</u>	<u>21,919,232</u>

Note 30

Administrative Expenses

		2009	2008
		Rupees	Rupees
Salaries, wages and other benefits	30.1	16,454,515	14,193,336
Printing and stationery		490,417	326,903
Telephones, telegrams and postage		347,594	375,137
Traveling and conveyance		1,218,069	1,307,070
Repairs and maintenance		637,542	732,591
Vehicles' running and maintenance		2,547,755	2,464,563
Rent, rates and taxes		382,095	382,095
Insurance		619,852	523,776
Legal and professional charges		146,340	853,384
Fees and subscription		870,567	623,397
Entertainment		1,006,448	366,567
Advertisement		109,892	42,750
Miscellaneous		24,093	112,195
Depreciation	15.2	722,392	932,049
		<u>25,577,571</u>	<u>23,235,803</u>

- 30.1 Salaries and benefits include Rs. 1.721 million (2008: Rs. 1.197 million) on account of staff retirement benefits.

Note 31

Other Operating Charges

	2009	2008
	Rupees	Rupees
Auditors' remuneration		
- Statutory audit	375,000	175,000
- Limited scope review	50,000	50,000
- Other attestation services	25,000	25,000
	450,000	250,000
Deficit on revaluation of investments at fair value through profit or loss	278,554	241,337
Provision for workers' profit participation fund	1,654,730	-
Provision for doubtful debts	440,591	2,154,584
	<u>2,823,875</u>	<u>2,645,921</u>

Note 32

Other Operating Income

	2009	2008
	Rupees	Rupees
Income from financial assets:		
- Exchange gain	1,165,097	919,527
- Profit on bank account		49,815
	1,165,097	969,342
Income from non - financial assets:		
- Gain on disposal of property, plant and equipment - Net	26,552	39,870,426
- Profit on sale of imported cotton	7,860,076	-
- Excess liabilities written back	1,901,135	-
- Doubling income of yarn	171,000	1,844,900
	11,123,860	42,684,668

Note 33

Finance Cost

	2009	2008
	Rupees	Rupees
Interest / mark-up on:		
- Long term financing	26,158,852	28,851,533
- Liabilities against assets subject to finance lease	3,358,708	4,829,680
- Short term borrowings	17,433,271	14,299,274
	46,950,831	47,980,487
Mark-up from associated undertaking on:		
- Long term loan	(9,102,180)	(5,064,675)
- Short term loan	(10,265,953)	(3,090,390)
	(19,368,113)	(8,155,065)
Bank charges and commission	27,582,718	39,825,422
Interest on workers' profit participation fund	1,301,934	2,765,451
	113,345	222,470
	28,997,997	42,813,343

Note 34

Taxation

	2009	2008
	Rupees	Rupees
Current:		
- Current year	2,620,234	6,029,842
- Prior years	16,172	19,373
	2,636,406	6,049,215
Deferred	2,442,984	(1,202,517)
	5,079,390	4,846,698

34.1 Provision for current taxation represents the tax due under the relevant provisions of the Income Tax Ordinance, 2001.

34.2 Numerical reconciliation between the average effective tax rate and the applicable tax rate is not given due to accumulated tax losses.

Note 35

Earnings per Share - Basic

	2009	2008
Profit / (Loss) after taxation for the year attributable to ordinary shareholders	Rupees 33,755,204	(668,928)
Weighted average number of ordinary shares outstanding during the year	Number 13,552,569	13,552,569
Earnings per share - Basic	Rupees 2.49	(0.05)

35.1 There is no dilution effect on the basic earnings per share as the Company has no such commitments.

Note 36

Chief Executive's, Directors' and Executive's Remuneration

The aggregate amounts charged in the financial statements for the year as remuneration and benefits to the chief executive, directors and executive of the Company are as follows:

	2009			2008		
	Chief Executive	Directors	Executive	Chief Executive	Directors	Executive
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	2,290,909	1,998,727	1,163,636	1,600,000	1,243,400	462,365
Medical	229,091	199,873	116,364	-	-	-
House rent allowance	-	-	-	640,000	497,360	184,946
Utilities	-	-	-	160,000	124,340	46,237
Staff retirement benefits	210,000	216,550	140,000	200,000	155,425	-
	<u>2,730,000</u>	<u>2,415,150</u>	<u>1,420,000</u>	<u>2,600,000</u>	<u>2,020,525</u>	<u>693,548</u>
Number of persons	1	2	1	1	2	1

36.1 The chief executive, two directors and one executive are provided with free use of Company maintained vehicle. Executive is defined as an employee with basic salary exceeding Rs. 500,000.

36.2 No meeting fee has been paid to any director of the Company.

Note 37

Segment Information

The entire revenue and expenses of the Company are due to manufacturing and sales of yarn. There are no reportable segments of the Company and, therefore, segment information has not been prepared.

Note 38

Plant Capacity and Production

		2009	2008
Plant capacity converted into 20'S count based on three shifts per day for 365 days (2008: 365 days)	Kgs	22,878,894	22,634,106
Actual production converted into 20'S count	Kgs	21,237,766	19,601,009

It is difficult to calculate precisely the production capacity since it fluctuates widely depending on various factors such as count of yarn spun, spindles' speed, twist, maintenance of machinery, power shutdown and raw materials used etc. It also varies according to the pattern of production adopted in any particular year.

Note 39

Transactions with Related Parties

Related parties and associated undertakings comprise related group companies, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings, other than remuneration and benefits to key management personnel under the term of their employment are as follows:

	2009	2008
	Rupees in million	
- Purchase of materials, goods and services	33,516	3,023
- Sale of materials, goods and services	2,517	42,865
- Director's loan received	-	10,000
- Long term loan provided - net	(62,471)	-
- Short term finances recovered / (provided) - net	20,701	(38,327)
- Purchase of shares	-	5,800
- Mark up earned on outstanding balance of associated undertaking	19,443	8,155
- Sale of land	-	50,175

There were no transactions with key management personnel other than undertaken as per terms of their employment that have been disclosed in Note 36. Sale and purchase transactions have been carried out on commercial terms and conditions under comparable uncontrolled price method.

Note 40

Financial Risk Management**40.1 Financial risk factors**

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

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk**(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk was as follows:

	2009	2008
	Rupees in thousands	
Trade debts	10,688	6,912
Gross balance sheet exposure	10,688	6,912
Outstanding letters of credit	(15,618)	(1,685)
Net exposure	(4,930)	5,227

The following significant exchange rates were applied during the year:

Rupees per US Dollar

Average rate	80.00	65.00
Reporting date rate	81.34	68.20

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit after taxation for the year would have been Rs. 0.534 million (2008: Rs. 0.346 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to equity and commodity price risk.

Sensitivity analysis

A change of 5% in the value of investments at fair value through profit and loss would have increased / decreased profit or loss by Rs. 12,508 (2008: Rs. 26,435) on the basis that all other variables remain constant.

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, lease liabilities and short term borrowings. As the borrowings are obtained at variable rates, these expose the Company to cash flow interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	2009	2008
	Rupees in thousands	
Floating rate instruments		
Financial liabilities		
Long term financing	261,915	242,871
Liabilities against assets subject to finance lease	12,975	33,871
Short term borrowings	83,386	117,476
Financial assets		
Bank balances - saving accounts	810	810

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the balance sheet date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs. 3.57 million (2008: Rs. 3.94 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2009	2008
	Rupees in thousands	
Long term loan	130,00	67,529
Long term deposits	70	70
Trade debts	16,815	15,610
Advances, trade deposits and other receivables	5,770	3,540
Short term investments	250	529
Short term loan	20,258	40,959
Cash and bank balances	3,916	4,480

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at the balance sheet date, the Company had Rs. 390 million worth short term borrowing limits available from financial institutions and Rs 3.916 million cash and bank balances. Following are the contractual maturities of financial liabilities, including interest payments.

Contractual maturities of financial liabilities as at June 30, 2009:

	Carrying Amount Rupees'000	Contractual cash flows Rupees'000	6 month or less Rupees'000	6-12 month Rupees'000	1-2 Years Rupees'000	2-5 Years Rupees'000
Long-term finances	281,292	331,591	18,000	20,250	45,113	248,228
Liabilities against leased assets	10,636	11,667	6,294	5,237	99	66
Trade and other payables	67,862	67,862	67,862	-	-	-
Accrued interest	3,855	3,855	3,855	-	-	-
Short term finances	83,529	95,866	47,933	47,933	-	-
	<u>447,174</u>	<u>510,842</u>	<u>143,915</u>	<u>73,420</u>	<u>45,212</u>	<u>248,294</u>

Contractual maturities of financial liabilities as at June 30, 2008:

	Carrying Amount Rupees'000	Contractual cash flows Rupees'000	6 month or less Rupees'000	6-12 month Rupees'000	1-2 Years Rupees'000	2-5 Years Rupees'000
Long-term finances	262,871	279,432	78,065	45,552	79,253	76,562
Liabilities against leased assets	26,532	30,485	12,868	5,960	11,492	185
Trade and other payables	66,471	66,471	66,471	-	-	-
Accrued interest	33,748	33,748	33,748	-	-	-
Short term finances	117,476	132,271	68,636	68,636	-	-
	<u>507,099</u>	<u>542,480</u>	<u>259,788</u>	<u>120,147</u>	<u>90,745</u>	<u>76,727</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest mark up have been disclosed in Note 6, Note 7 and Note 11 to these financial statements.

40.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

Note 41

Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level and regulating its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As on the balance sheet date, the gearing ratio of the Company was as under:

	2009	2008
	Rupees	Rupees
Total borrowings	377,796,062	414,218,754
Cash and bank balances	(3,915,667)	(4,479,676)
Net Debt	373,880,395	409,739,078
Equity	273,515,051	231,560,693
Total Capital	647,395,446	641,299,771
Gearing Ratio	57.75%	63.89%

Note 42

Authorization of Financial Statements

These financial statements have been authorized for issue by the Board of Directors of the Company on Monday, 05th October, 2009

Note 43

General

- Figures have been rounded off to the nearest Rupee ;
- Comparative figures have been re-arranged / reclassified, wherever necessary, to facilitate comparison. No material rearrangements have been made in these account.

CHIEF EXECUTIVE

DIRECTOR

FORM-34
PATTERN OF HOLDING OF SHARES
HELD BY THE SHARE HOLDERS AS AT 30-06-2009

No. of Share Holders	From	To	Total Shares Held
235	1	100	7,258
164	101	500	42,524
28	501	1,000	21,193
39	1,001	5,000	76,364
6	5,001	10,000	39,950
3	10,001	15,000	40,024
2	15,001	20,000	33,641
1	20,001	25,000	22,356
1	30,001	35,000	33,500
1	50,001	55,000	51,200
2	235,001	240,000	471,025
1	265,001	270,000	268,566
2	280,001	285,000	566,854
1	300,001	305,000	302,263
1	420,001	425,000	420,226
1	545,001	550,000	545,830
1	645,001	650,000	646,796
1	675,001	680,000	675,980
1	680,001	685,000	684,660
2	695,001	700,000	1,400,000
1	735,001	740,000	738,930
1	1,735,001	1,740,000	1,738,238
1	2,115,001	2,120,000	2,116,991
1	2,605,001	2,610,000	2,608,200
497			13,552,569

Categories of Shareholders	Shares Held	Percentage %
Directors, Chief Executive Officer and their spouse and minor children.	2,064,206	15.231
Associated Companies, Undertakings and Related Parties.	2,615,900	19.302
NIT and ICP.	17,110	0.126
Banks, Development Financial Institutions, Non Banking Financial Institutions.	1,600	0.012
Insurance Companies	52,131	0.385
Motarsaba and Mutual Funds.	6,369	0.047
Shareholders holding 10% and above. (Associated Company holds 19.25% shares)	3,855,229	28.446
General Public		
a) Local	4,939,837	36.449
b) Foreign		
Others (to be specified)		
Crescent Jute Products Limited	60	0.000
Sarfaraz Mahmood (Pvt.) Limited	12	0.000
MSM Anwar Financials (Pvt.) Limited	115	0.001
Total	13,552,569	100.000

**Detail of Pattern of Shareholding as per Requirements of
Code of Corporate Governance as at 30-06-2009**

Shareholders' Category	No. of Shareholders	No. of Shares Held
Associated Companies, Undertakings and Related Parties.		
Shaheen Cotton Mills Limited	1	2,608,200
Sargodha Jute Mills Limited	1	7,700
NIT and ICP		
National Bank of Pakistan, Trustee Department (NIT)	1	8,810
Investment Corporation of Pakistan	1	8,300
Directors, Chief Executive Officer and Their Spouse and Minor Children		
Mr. Imran Aslam	Chief Executive Officer/Director	738,930
Mian Parvez Aslam	Director	646,796
Mr. Rashid Ahmad	Director	500
Chaudhry Hakim Ali	Director	500
Mr. Humayun Bakht	Director	500
Lt. Col. @ Abdul Qayyum	Director	500
Mr. Hassan-ud-Din Ansari	Director	500
Mrs. Fakhra Parvez		675,980
Executives	-	-
Public Sector Companies and Corporations	-	-
Banks, Development Finance Institutions, Non-banking Finance Institutions, Insurance Companies Modaraba and Mutual Funds	11	60,100
Shareholders holding 10% or more than voting interest		
Shaheen Cotton Mills Limited	1	2,608,200
Mr. Irfan Aslam	1	2,116,991
Mian Shahzad Aslam	1	1,738,238
Trade in the shares of the Company carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.	-	-

PROXY FORM

I / We _____

Of _____

in the district of _____ being a member of **SHAHZAD TEXTILE****MILLS LIMITED** and holder of _____ Ordinary shares As
(Number of Shares)

per Share Register Folio No. _____ here appoint

_____ of _____

another member of the company of failing him _____

of _____ another member of the Company as

my / our proxy to vote of me / us and on my / our behalf at the Annual General Meeting of the Company to be held on Friday, October 30, 2009 at 12:15 pm at any adjournment thereof.

Signed this _____ day of _____ 2009

1. Witness:

Signature _____

Name _____

Address _____

_____Affix
Revenue
Stamps of
Rs. 5/-_____
Signature of Member

2. Witness:

Signature _____

Name _____

Address _____

Shareholder's Folio No. _____

CDC A/c No. _____

NIC No.

Notes:

- Proxies, in order to be effective, must be received at the Company's Registered Office, 19-A, Off Zafar Ali Road, Gulberg-V, Lahore, not later than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.
- CDC shareholders are requested to bring with them their National Identity Cards alongwith the participants' ID numbers and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.