

CONTENTS

Company Information	2
Vision & Mission Statement	3
Committed to Quality	4
Chairman's Review	6
Directors' Report to the Shareholders	7
Key Operating & Financial Results	9
Patterns of Holding of Shares	10
Statement of Compliance with the Code of Corporate Governance	12
Notice of Annual General Meeting	14
Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	16
Auditors' Report	17
Balance Sheet	18
Profit & Loss Account	20
Cash Flow Statement	21
Statement of Changes in Equity	23
Notes to the financial Statements	24
Form of Proxy	49

COMPANY INFORMATION

BOARD OF DIRECTORS

**CHAIRMAN AND
CHIEF EXECUTIVE OFFICER:**

Mr. Anwar Ahmed Tata

DIRECTORS:

Mr. Shahid Anwar Tata
Mr. Adeel Shahid Anwar Tata
Mr. Aijaz Ahmed Tariq
Mr. Farooq Advani
Mr. Javed Ahmed
Mr. Kauser Ejaz

**AUDIT COMMITTEE
CHAIRMAN:**

Mr. Shahid Anwar Tata

MEMBERS:

Mr. Javed Ahmed
Mr. Kauser Ejaz

**COMPANY SECRETARY &
CHIEF FINANCIAL OFFICER:**

Mr. Farooq Advani

BANKERS:

Allied Bank Limited.
Habib Metropolitan Bank Limited
KASB Bank Limited.
MCB Bank Limited.
Soneri Bank Limited

AUDITORS:

M/s. M. Yousuf Adil Saleem & Co.
Chartered Accountants

LEGAL ADVISOR:

Faisal Mehmood Ghani & Co.
Advocates.

SHARE REGISTRAR:

Noble Computer Services (Pvt.) Ltd.
2nd Floor, Sohni Centre, BS 5 & 6,
Main Karimabad Block-4, Federal B. Area
Karachi- 75950
Tel# 6801880, 6802326

REGISTERED OFFICE:

8, 8th Floor Textile Plaza,
M.A Jinnah Road Karachi.
Tel#2412955-3 Lines 2426761-2-4
Fax#2417710

WEB SITE ADDRESS:

www.tatatex.com

E- MAIL ADDRESS:

finance@tatatex.com

MILLS:

HX-1, Landhi Industrial Area,
Landhi, Karachi

VISION STATEMENT

While keeping our fundamentals correct we shall build upon our recognition as a very good company known and established for our principled and honest business practices and higher quality standards with niche products and specialty items with a sustained growth in our capacities.

MISSION STATEMENT

We are committed to the higher expectations of our customers, we deliver more than we promise. We strive for the production of best quality yarns for high value products.

COMMITTED TO QUALITY



- ▲ We are indeed among the elite groups in the world who have sustained their commitment of the highest quality standards thus keeping quality as a movement close to our hearts.
- ▲ Our ISO certification have covered all spheres of business activities leaving no area outside the ambit of ISO. Thus covering areas of production, maintenance, Power house, sales, after sales, international trade, procurement, finance, information technology, administration, human resource and quality control.

CHAIRMAN'S REVIEW

Assalam-o-Alaikum,

Alhamdulillah, we are pleased to welcome the shareholders of the Company to the 40th Annual General Meeting and to review the operational and financial results for the year ended June 30, 2007. During the period under review, the Company made a pre-tax loss of Rs. 24.519 million as compared to a pre-tax profit of Rs.7.389 million during the corresponding period of last year.

The textile industry is passing through a critical stage due to unprecedented increase in the cost of production besides confronting competition from the regional countries.

The two units of Salfi Textile Mills Ltd., performed as under during the period under review.

Salfi Unit I:

This unit manufactures man made fiber yarn. The graph of demand in Pakistan for synthetic yarn has showed gradually dropped-down trend due to cross border trade is halted, which is mainly because unresolved political issues with Afghanistan and Pakistan and our export has also being affected. As discussed above, China is trying to penetrate in Pakistani market by penetrating its cheap fabric and we can not compete as our prices and quality is higher as there is already existing 9% tariff on imported fiber.

Salfi Unit II:

This unit is running on 100% cotton yarn and it caters the requirements of weaving and denim industry. Our Slub machines are running at a very good performance.

We have two areas here on Unit-II.

One is on Course Count Slub that caters the requirement of Denim Industry. This industry has with the span of time shown good growth in the country and has made its placement very well. Our local market is fully covered from this product and we are running on a good fast pace in developing more business out of it. Another area of vital importance is Knitting. This covers the export market and we are working very hard to capture and develop the export market, we are trying to fully penetrate in the market for our 100% cotton yarn.

Spinning Industry in Pakistan:

Spinning is the only world class industry in Pakistan which for the last 10 years has progressed without any help or subsidy from the government. We buy and sell Cotton and Cotton Yarn at international prices respectively. Along with it, we carry the burden of inefficiencies of the infrastructure and the primitive systems. Our sale proceeds, with further burden of cost increases we will not be able to sustain this profitability. Unfortunately, the government has been ignoring the spinning industry for the last several years and whenever proposals are put forward to improve things, the industry gets no response. The spinning industry, in respect of some product is the most value added industry in the textile sector is surprisingly not treated as a value added industry.

General Economic Situation & Cost Push Inflation:

There is a very serious cost push inflation because of which the cost of doing business in Pakistan has risen due to which competitive manufacturing is becoming very difficult. Since last year Gas prices and interest rates have increased besides substantial increase in wage bill. The cost increase cannot be passed on to the customer and would effect the profitability of the company.

In our opinion, there are three (3) fundamentals to a strong economy and growth for the country.

1. Confidence in state, state-hood and its institutions and above all rule of law.
2. Human Resource Development (HRD).
3. Infrastructure & Economic Policies.

Unfortunately, the political uncertainty and lack of building institutions in a viable system of governance puts our country in a very vulnerable situation. Although, the economic management & policies are very good and red tapism is much lower than other countries in the region but political uncertainty is not allowing us to make progress.

Burden of Taxation:

Income Tax is being charged on a presumptive basis with the result that even loss making companies have to pay income tax @ 0.5% of their turnover as minimum tax. Besides this EOBI, SESSI, Social Security, Stamp duties, Cotton Cess and a long list of other levies, 3% in total of the sales, irrespective of profit or loss and is basically a direct cost on the company. How can we afford a taxation of 1.5% (which now has been reduced to 1%) on gross export sales?

Export Development Surcharge being charged @ 0.25% is the responsibility of Government. We are being forced to pay the Surcharge under this head. What is the use of export development fund when we do not have any benefit from the government with regard to development of exports?

We deduct withholding tax from the suppliers and deposit the same in government treasury. Since the amount of with-holding tax is added by the suppliers on the cost of goods supplied to us so it becomes an extra burden and cost on us.

Cotton Situation:

As we do not have statistics about the availability of cotton i.e. country wide stock position of cotton was not known due to which there was a shortage of cotton and prices went very high. The cotton prices will remain high and although the yarn prices have increased but the total increase in cotton prices has not been absorbed by the increase in yarn prices and as such this looks to be a very difficult year. We have cotton in stock for the first quarter of 2007/2008 so hopefully we shall do better in the first quarter. Let us hope that for the second quarter also we are able to procure cotton at better prices so that we can make profits.

As we all know, in Pakistan the window for buying cotton is short and consists of only 4 months i.e. September to December while internationally the period lasts through out year.

We will start cotton purchases when the prices become stable and situation on cotton front becomes clear. The cotton crop in Pakistan looks to be very good so far but however we are not dependent only on Pakistani cotton and shall also look for opportunities in the international market.

There is also a strong need in Pakistan to have a cotton vision i.e. crop size, packing, ginning, quality, grading, moisture, contract, arbitration, and statistics and data collection.

We pray to Almighty Allah to give us strength for sustaining and to alleviate in the current situation and for further improvement.

We would like to acknowledge with many thanks the true efforts of our staff, workers and officers for their hard works and dedication. We are also thankful to our bankers, brokers and agents for putting their share in company's over all performance.


ANWAR AHMED TATA
Chairman

Karachi

Dated: September 11, 2007

DIRECTOR'S REPORT TO THE SHAREHOLDERS

The Directors have pleasure in presenting before you the 40th Annual Report together with the Audited Accounts for the year ended June 30, 2007.

FINANCIAL RESULTS

The Company made a Pre tax Loss of Rs.24,519,194/- after charging costs, expenses and depreciation for the year.

	(Rupees)
Pre Tax Loss for the Year	(24,519,194)
Taxation	6,953,080
Loss After Taxation	<u>(17,566,114)</u>
Accumulated Profit Brought Forward	148,711,126
Payment of Dividend	<u>(3,342,570)</u>
	127,802,442
Share of Associate's transfer from Surplus on Revaluation	2,446,113
Transfer from Surplus on Revaluation of Fixed Assets	5,451,346
Accumulated Profit Carried Forward	<u>135,699,901</u>

CHAIRMAN'S REVIEW

The Directors of the Company endorse the contents of the Chairman's review, which is deemed to be a part of the Director's report.

DIVIDEND

The Directors of the Company are pleased to recommend the cash dividend @ 10 % for the Year ended June 30, 2007.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

- a. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Company has maintained proper books of accounts.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. In preparation of financial statements International Accounting Standards, as applicable in Pakistan, have been followed and non-applicability, if any, has been adequately disclosed.
- e. Internal auditor is continuously reviewing the existing system of internal control and other procedures. The process of review will continue and any weakness in controls will have immediate attention of the Management.

- f. There are no significant doubts upon the Company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations
- h. Key operating and financial data of last six years in a summarized form is annexed.
- i. During the year under review, four Board of Directors meetings were held and attended as follow:

Name of Director	No. of Meeting Attended
Mr. Anwar Ahmed Tata	4
Mr. Shahid Anwar Tata	2
Mr. Adeel Shahid Anwar*	2
Mr. Aijaz Ahmed Tariq	2
Mr. Kausar Ejaz	3
Mr. Javed Ahmed	3
Mr. Farooq Advani	4
Mr. Sheikh Pervez Ahmed**	0

* Elected on 28th October 2006

** Resigned on 28th October 2006

(However, leave of absence was granted to the Directors who could not attend the Board Meetings due to their preoccupations).

- j. The statement of pattern of share holding of the Company as at June 30,2007 is annexed. This statement is prepared in accordance with the Code of Corporate Governance.
- k. During the year, under review the trades in the shares of the Company were carried out by the CFO, Company Secretary, Directors, and their Spouses as follows:

	Opening Balance As on 01-07-2006	Purchase	Sales	Closing Balance As on 30-06-2007
Mr. Adeel Shahid Anwar	-	2,500	-	2,500

AUDITORS

The Auditors Messrs M. Yousuf Adil Saleem & Co. Chartered Accountants retire at the conclusion of the Annual General Meeting and being eligible, offer themselves for reappointment for the financial year ending June 30, 2008.

ON BEHALF OF THE BOARD OF DIRECTORS



**ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER**

KARACHI

DATED: Septemeber 11, 2007

KEY OPERATING AND FINANCIAL RESULTS FROM 2002 TO 2007

	2007	2006	2005	2004	2003	2002
	(9 months)					
Rupees in thousand.....					
OPERATING DATA						
Sales	1,660,593	814,624	720,542	964,448	824,736	834,296
Cost of Goods Sold	1,499,811	720,021	672,076	889,802	776,042	744,544
Gross Profit	160,782	94,603	48,466	74,646	48,694	89,752
(Loss)/Profit Before Taxation	(24,519)	7,390	14,358	19,269	1,051	34,517
(Loss)/Profit After Taxation	(17,566)	7,333	13,918	12,152	(1,787)	23,307
FINANCIAL DATA						
Fixed Assets	1,545,281	949,342	945,022	577,719	543,083	521,651
Long Term Investment	115,795	101,326	93,392	31,291	31,479	30,658
Current Assets	574,994	776,760	479,846	366,578	403,811	416,343
Current Liabilities	568,017	773,402	460,116	362,052	409,628	446,963
KEY RATIOS						
Gross Margin (%)	9.68	11.61	6.73	7.74	5.90	10.76
Net Profit (%)	(1.06)	0.90	1.93	1.26	(0.22)	2.79
Current Ratio	1.01	1.00	1.04	1.01	0.99	0.93
Earning Per Share (Rupees)	5.26	2.19	4.16	3.64	(0.59)	7.67
Cash Dividend (%)	10.00	10.00	10.00	10.00	-	12.50
Stock Dividend (%)	-	-	-	10.00	-	-
STATISTICS						
Number of Spindle	36,324	36,324	35,100	39,036	39,036	39,036
Production into 20/s Count 000(Kgs)	13,724	10,047	9,429	12,867	12,513	13,051

**Patterns of Holding of Shares Held by the Shareholders
As at June 30, 2007**

NO. OF SHAREHOLDERS	SHARE-HOLDING		TOTAL SHARES HELD
	FROM	TO	
711	1	100	33,807
160	101	500	32,531
29	501	1000	21,141
30	1001	5000	63,100
7	5001	10000	46,495
1	10001	15000	13,500
1	15001	20000	16,750
1	35001	40000	35,600
1	100001	105000	104,645
1	100501	110000	107,795
1	180001	185000	184,030
1	365001	370000	366,300
1	2315001	2320000	2,316,876
<u>945</u>			<u>3,342,570</u>

**CATEGORIES OF SHAREHOLDERS
As at June 30, 2007**

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDER	SHARES HELD	PERCENTAGE
Joint Stock Companies	5	533	0.02
NIT and ICP	3	229,190	6.86
Banks, Development Finance Institutions, Insurance & Modarbas	3	8,125	0.24
Associated Companies	1	366,300	10.96
Directors, CEO, their Spouses and Minor Children	9	2,519,661	75.38
Others	2	5,391	0.16
Individuals	922	213,370	6.38
	<u>945</u>	<u>3,342,570</u>	<u>100.00</u>

**Details of Categories of Shareholders
As at June 30, 2007**

	NUMBER OF SHAREHOLDERS	SHARES HELD
JOINT STOCK COMPANIES		
A. Sattar Motiwala Securities (Pvt.) Ltd.		138
Fateh Textile Mills Ltd.		55
Naseer Shahid Ltd.		20
Javed Omer Vohra & Company Ltd.		100
Y. S. Securities & Services (Pvt.) Ltd.		220
	5	<u>533</u>
NIT and ICP		
National Bank of Pakistan Trustee Dept		212,440
Investment Corporation of Pakistan		16,750
	3	<u>229,190</u>
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, INSURANCE & MODARBAS		
Central Insurance Co. Ltd.		560
Guardian Modarba Management (Pvt.) Ltd.		4,620
IDBP (ICP UNIT)		2,945
	3	<u>8,125</u>
ASSOCIATED COMPANIES		
Island Textile Mills Ltd.	1	366,300
DIRECTORS, CEO, THEIR SPOUSES & MINOR CHILDREN		
Mr. Anwar Ahmed Tata (Chariman/Chief Executive)		2,316,876
Mr. Shahid Anwar Tata (Director)		184,030
Mr. Aijaz Ahmed Tariq (Director)		2,750
Mr. Adeel shahid Anwar (Director)		2,500
Mr. Kausar Ejaz (Director)		2,750
Mr. Jawed Ahmed (Director)		2,750
Mr. Farooq Advani (Director)		2,505
Mrs. Parveen Anwar (W/o of Mr. Anwar Ahmed Tata)		2,750
Mrs. Saiqa Shahid (W/o of Mr. Shahid Anwar Tata)		2,750
	9	<u>2,519,661</u>
OTHERS		
The Administrator Abandoned Properties		5,390
Securities & Exchange Authority		1
	2	<u>5,391</u>
INDIVIDUALS		
Grand Total	<u>922</u>	<u>213,370</u>
	<u>945</u>	<u>3,342,570</u>

**Shareholders Holding 10% or More Voting Interest in the Company
As At June 30, 2007**

	Shares Held	Percentage
DIRECTORS, CEO, THEIR SPOUSES AND MINOR CHILDREN		
Mr. Anwar Ahmed Tata	2,316,876	69.31
ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES		
Island Textile Mills Ltd.	366,300	10.96

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
PERIOD ENDED 30TH JUNE 2007**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi Stock Exchange (Guarantee Ltd.) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The company has applied the principles contained in the Code in the following manner.

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes three non-executive directors and none representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Company.
3. All the 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. No director in the board is a member of any stock exchanges in Pakistan.
4. One casual vacancy occurred during the period under review which was filled by the Board of Directors, within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors, non workmen employees and has been Communicated formally to workmen employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and the Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and condition of employment of the CEO and other executive directors have been taken by the Board.
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 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 meeting were appropriately recorded and circulated.
9. The Board arranged two orientation course for its directors during the period to appraise them of their duties and responsibilities.
10. No new appointment of CFO, Company Secretary and Head of Internal Audit, has been made during the year.
11. The directors' report for this period 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 share 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.
16. The meetings of the audit committee were held 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 internally and has outsourced some internal audit function to M/s Muhammad Ibrahim Sheikh (Chartered Accountants) who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they (or their representatives) are involved in their internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme 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 been complied with.

ON BEHALF OF THE BOARD OF DIRECTORS


**ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER**

**Karachi
Dated: September 11, 2007**

Notice of Annual General Meeting

Notice is hereby given that the 40th Annual General Meeting of the Shareholders of **Salfi Textile Mills Limited** will be held on **Wednesday the October 17, 2007 at 03:30 P.M.** at **5th Floor Textile Plaza M.A. Jinnah Road Karachi**, to transact the following business: -

ORDINARY BUSINESS

1. To confirm the minutes of the 39th Annual General Meeting held on October 12, 2006.
2. To receive, consider and adopt the report of the Directors and Auditors and Audited Accounts of the Company for the period ended June 30, 2007.
3. To appoint Auditors for the year 2007-08 and fix their remuneration. The retiring auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants being eligible to offer themselves for reappointment.
4. To approve the payment of Dividend @ 10 (i.e. Re.1.00 per share) for the period year ended June 30, 2007 as recommended by the Board of Directors.
5. To elect Seven Directors of the Company as fixed by the Board for a term of three years in accordance with the provision of Section 178(1) of the Companies Ordinance 1984.
Retiring Directors are;
(i) Mr. Anwar Ahmed Tata (ii) Mr. Shahid Anwar Tata
(iii) Mr. Adeel Shahid Anwar (iv) Mr. Kausar Ejaz
(v) Mr. Aijaz Ahmed Tariq (vi) Mr. Javed Ahmed.
(vii) Mr. Farooq Advani

The retiring Directors are eligible for re-election.

6. To transact any other ordinary business or businesses with the permission of the Chair.

SPECIAL BUSINESS

7. To approve amendments comprising of insertions, deletions, alterations and substitutions in the Article of Association of the Company by passing the following special resolution with or without modification:

“RESOLVED THAT the proposed amendments comprising of insertions, deletions, alterations and substitutions in the existing Article of Association of the Company as circulated to the Members of the Company (with Black-lined draft) along with the annual reports for the financial year 2007 be and are hereby approved,”

“FURTHER RESOLVED THAT the Chief Executive Officer and / or any Director and/or Company Secretary of the Company be and are hereby authorized singly to file the necessary returns with the regulatory authorities and to do all acts, matters, deeds or things necessary to give effect to the above resolution.”

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

The purpose of this statement is to set forth the material facts in relation to the special business. The legislature from time to time brings forth changes in and reshapes laws of the country. The Companies Ordinance 1984, the rules made there under and pertinent corporate laws of the country have intermittently undergone such amendments. In order to bring the Article of Association of the Company in conformity with the laws that have been amended, as mentioned above, and to make certain incidental and independent placements, changes and corrections that were considered imperative, it is proposed that the article of association of the company may be amended in the manner and to the extent as notified in the set of proposals being circulated to the shareholders along with the annual reports for the financial year 2007, in which general and article wise descriptions of aforesaid amendments incorporating certain insertions, deletions, alterations and substitutions have been provided.

The proposed amendments shall, in addition to updating the Articles of Association, improve the texts thereof.

The Directors of the Company have no interest in the special business or special resolution, save to the extent of their respective shareholding in the Company.

By order of the Board of Directors



Farooq Advani
Company Secretary

Karachi:

Dated: September 24, 2007

Notes:

1. The Share Transfer Books of the Company will remain closed from October 05, 2007 to October 17, 2007 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint proxy. Proxies, in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his/her Original NIC or Passport to prove his/her identity and in case of Proxy must enclose additionally an attested copy of his/her NIC or Passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. **COMPLIANCE WITH RELEVANT PROVISION OF "CODE OF CORPORATE GOVERNANCE"**
Any person, who seeks to contest an election to the office of Director, shall whether he is retiring Director or otherwise file with the Company at its registered office not later than fourteen days before the date of the meeting, a notice of his intention of offer himself for election as a director. The consent should accompany the following declarations as required under the "Code of Corporate Governance".
That:-
 - a. I am aware of my duties and power to act as Director under the relevant law(s) of the Memorandum and Articles of Associations and Listing Regulations.
 - b. I am not serving as Director on the Board of more than 10 companies, including this company.
 - c. I am a registered taxpayer.
 - d. I have not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution or I, being a member of a Stock Exchange have not been declared as a defaulter by such Stock Exchange.
 - e. Neither my spouse nor I are engaged in the business of Stock Brokerage.
5. Shareholders are requested to notify the change of address, if any, immediately.

Deloitte.

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

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Fax: +92 (0) 21- 454 1314
Web: www.deloitte.com

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **SALFI TEXTILE MILLS LIMITED** to comply with of the Listing Regulation No. 37 of the Karachi Stock Exchange.

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 compliances can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such controls.

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


Chartered Accountants

Karachi
Date: September 11, 2007

A member firm of
Deloitte Touche Tohmatsu

AUDITORS'S REPORT TO THE MEMBERS

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

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

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

- a in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b in our opinion
 - i the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c in our opinion, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2007 and of the loss, its cash flows and changes in equity for the year then ended; and
- d in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi
Dated : September 11, 2007


M. Yousuf Adil Saleem & Co.
Chartered Accountants

A member firm of
Deloitte Touche Tohmatsu

BALANCE SHEET

SHARE CAPITAL AND RESERVES	Note	June 30, 2007 Rupees	June 30, 2006 Rupees
Authorised 5,000,000 ordinary shares of Rs.10 each		50,000,000	50,000,000
Issued, subscribed and paid-up	3	33,425,700	33,425,700
Capital reserve			
- Other reserve	4	5,996,360	5,996,360
- Unrealized gain in value of securities available for sale		2,833,437	611,763
Unappropriated profits		135,699,901	148,711,126
		177,955,398	188,744,949
 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	 5	 549,059,638	 547,313,198
 NON-CURRENT LIABILITIES			
Long-term financing	6	693,819,550	671,920,360
Liabilities against assets subject to finance lease	7	305,584	1,176,611
Deferred liabilities	8	58,144,127	76,935,909
 CURRENT LIABILITIES			
Trade and other payables	9	54,257,268	47,902,711
Accrued interest / mark-up on loans	10	24,126,532	41,155,460
Short-term borrowings	11	276,488,810	564,968,717
Current portion of			
long - term financing		148,098,722	61,149,686
liabilities against assets subject to finance lease		863,682	2,564,218
Custom debentures		54,680	54,680
Taxation - income tax		64,127,331	55,606,373
		568,017,025	773,401,845
 CONTINGENCIES AND COMMITMENTS	 12	 <u>2,047,301,322</u>	 <u>2,259,492,872</u>

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

AS AT JUNE 30, 2007

	Note	June 30, 2007 Rupees	June 30, 2006 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,355,518,583	1,380,413,255
Long-term investments	14	115,794,922	101,326,183
Long-term deposits		993,688	993,688
CURRENT ASSETS			
Stores, spares and loose tools	15	13,865,780	10,962,804
Stock-in-trade	16	238,154,200	523,342,566
Trade debts - considered good	17	184,786,538	141,109,921
Loans and advances	18	96,485,504	80,040,737
Trade deposits	19	22,825	909,900
Other receivables - sales tax		5,370,947	13,081,223
Other financial assets	20	3,639,628	1,806,392
Cash and bank balances	21	32,668,707	5,506,203
		574,994,129	776,759,746
		<u>2,047,301,322</u>	<u>2,259,492,872</u>



ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER



SHAHID ANWAR TATA
DIRECTOR

**PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2007**

	Note	June,30 2007 Rupees	June 30, 2006 Rupees
Sales	22	1,660,593,409	814,624,538
Cost of goods sold	23	(1,499,811,588)	(720,021,389)
Gross profit		<u>160,781,821</u>	<u>94,603,149</u>
Distribution cost	24	(39,451,563)	(10,068,776)
Administrative expenses	25	(35,232,602)	(30,026,736)
Other operating expenses	26	(255,979)	(7,123,637)
Other operating income	27	11,218,665	299,266
Finance cost	28	(135,219,245)	(49,235,234)
Share of profit from associate	14.1	13,639,709	8,941,714
		<u>(185,301,015)</u>	<u>(87,213,403)</u>
(Loss) / profit before taxation		<u>(24,519,194)</u>	<u>7,389,746</u>
Taxation	29	6,953,080	(56,783)
(Loss) / profit for the year		<u>(17,566,114)</u>	<u>7,332,963</u>
Earnings per share - Basic and diluted	30	<u>(5.26)</u>	<u>2.19</u>

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



*ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER*



*SHAHID ANWAR TATA
DIRECTOR*

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2007

	June,30 2007 Rupees	June 30, 2006 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(24,519,194)	7,389,746
Adjustments for :		
Depreciation of property, plant and equipment	68,427,833	38,512,912
Provision for staff gratuity	6,568,878	3,261,081
Provision for compensated absences	16,485	233,805
Finance cost	135,219,245	49,235,234
(Profit) / loss on disposal of property, plant and equipment	(3,112,015)	6,640,180
Share of profit from associate	(13,639,709)	(8,941,714)
	168,961,523	96,331,244
Change in Working Capital		
(Increase) / decrease in current assets		
Stores, spares and loose tools	(2,902,976)	3,084,823
Stock-in-trade	285,188,366	(250,548,614)
Trade debts - considered good	(43,676,617)	(29,721,572)
Loans and advances	(4,558,372)	(15,382,596)
Trade deposits	887,075	1,855,710
Other receivables - sales tax	7,710,276	(10,148,113)
Other financial assets	(1,833,236)	252,191
Increase / (decrease) in current liabilities		
Trade and other payables	6,299,723	9,471,498
Cash generated from / (used in) operations	416,075,762	(194,805,429)
Finance cost paid	(152,248,173)	(17,880,965)
Income taxes paid	(11,886,395)	(6,158,792)
Staff gratuity paid	(2,834,060)	(4,080,458)
Net cash from / (used in) operating activities	249,107,134	(222,925,644)

	Note	June,30 2007 Rupees	June 30, 2006 Rupees
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(50,141,650)	(552,429,201)
Proceeds on disposal of property, plant and equipment		9,720,500	15,252,500
Purchases of investments		-	(324,330)
Long - term deposits		-	(23,500)
Dividend received from associate		3,967,500	3,967,500
Net cash used in investing activities		<u>(36,453,650)</u>	<u>(533,557,031)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term financing		202,066,000	546,171,000
Repayment of long - term financing		(93,217,774)	(21,786,430)
Repayment of principal portion of finance lease		(2,571,563)	(5,458,442)
Short - term borrowings - Foreign Exchange Loans		210,355,652	(72,666,016)
Dividend paid		(3,287,736)	(3,294,913)
Net cash from financing activities		<u>313,344,579</u>	<u>442,965,199</u>
Net increase / (decrease) in cash and cash equivalents (A+B+C)		525,998,063	(313,517,476)
Cash and cash equivalents at beginning of the year		<u>(494,846,500)</u>	<u>(181,329,024)</u>
Cash and cash equivalents at end of the year		<u>31,151,563</u>	<u>(494,846,500)</u>
CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	32,668,707	5,506,203
Short - term running finance under markup arrangements	11	<u>(1,517,144)</u>	<u>(500,352,703)</u>
		<u>31,151,563</u>	<u>(494,846,500)</u>

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



ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER




SHAHID ANWAR TATA
DIRECTOR

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

	Issued subscribed and paid-up	Capital Reserve		Unappropriated profit	Total
		Other reserve	Unrealized gain/ (loss) in value of securities available for sale Rupees		
Balance at July 01, 2005	33,425,700	5,996,360	859,877	129,527,323	169,809,260
Changes in equity for the year 2005 - 06					
Available-for-sale investment - valuation losses taken to equity	-	-	(248,114)	-	(248,114)
Net income recognised directly in equity	-	-	(248,114)	-	(248,114)
Share of associate's transfer from surplus on revaluation of property, plant and equipment on account of -incremental depreciation - net of deferred tax and disposal	-	-	-	2,884,008	2,884,008
Transfer from surplus on revaluation of property, plant and equipment on account of :					
-incremental depreciation - net of deferred tax	-	-	-	7,097,789	7,097,789
-disposal - net of deferred tax	-	-	-	5,211,613	5,211,613
Profit for the year	-	-	-	7,332,963	7,332,963
Total recognised income and expense for the year	-	-	(248,114)	22,526,373	22,278,259
Final cash dividend for the year ended June 30, 2005 at Re. 1 per Ordinary share	-	-	-	(3,342,570)	(3,342,570)
Balance at June 30, 2006	33,425,700	5,996,360	611,763	148,711,126	188,744,949
Changes in equity for the year 2006 - 07					
Available-for-sale investment - valuation gain taken to equity	-	-	2,221,674	-	2,221,674
Net income recognised directly in equity	-	-	2,221,674	-	2,221,674
Share of associate's transfer from surplus on revaluation of property, plant and equipment on account of -incremental depreciation - net of deferred tax and disposal	-	-	-	2,446,113	2,446,113
Transfer from surplus on revaluation of property, plant and equipment on account of :					
-incremental depreciation - net of deferred tax	-	-	-	5,162,162	5,162,162
-disposal - net of deferred tax	-	-	-	289,184	289,184
Loss for the year	-	-	-	(17,566,114)	(17,566,114)
Total recognised income and expense for the year	-	-	2,221,674	(9,668,655)	(7,446,981)
Final cash dividend for the year ended June 30, 2006 at Re. 1 per Ordinary share	-	-	-	(3,342,570)	(3,342,570)
Balance at June 30, 2007	33,425,700	5,996,360	2,833,437	135,699,901	177,955,398

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


ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER


SHAHID ANWAR TATA
DIRECTOR

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

1. GENERAL INFORMATION

- 1.1 Salfi Textile Mills Limited (the company) was incorporated in Pakistan on January 05, 1968 as a public limited company under the Companies Act, 1913 as repealed by Companies Ordinance, 1984 and is listed on Karachi Stock Exchange. The registered office of the company is situated at 8, 8th floor Textile Plaza, M.A. Jinnah Road, Karachi. The principal activity of the company is manufacturing and sale of yarn. The Company's manufacturing facilities are located at Landhi Industrial Estate, Karachi in the province of Sindh.
- 1.2 These financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Standards and Interpretations that have been issued but are not yet effective

The following standards and interpretations of approved accounting standards are not expected to have significant impact on the Company's financial statements other than increased disclosures in certain cases.

IFRS 3	Business Combinations	Agreement entered on or after March 31, 2004
		Effective for annual periods beginning on or after
IFRS 2	Share-based Payments	January 1, 2007
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1, 2007
IFRS 6	Exploration for and Evaluation of Mineral Resources	January 1, 2007
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2—Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer loyalty programmes	July 1, 2008

2.3 Basis of preparation

These financial statements have been prepared under the historical cost convention modified by:

- revaluation of certain property, plant and equipment
- recognition of certain employee retirement benefits at present value
- investment in associate under equity method

The principal accounting policies adopted are set out below.

2.4 Leases

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

2.4.1 As Lessee

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs.

2.5 Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

2.6 Staff retirement benefits

The company has categorized its employees into workmen and non-workmen for post-employment benefits that comprise both the defined contribution plan and defined benefit plan. Both plans are un-funded. The details of plans are as follows:

2.6.1 Defined benefit plan

The company operates a gratuity scheme for all its employees under workmen category who have completed the minimum qualifying period of service as defined under the respective scheme. Provisions are made to cover the obligations under the schemes on the basis of actuarial assumptions and are charged to income. The most recent valuation was carried out as at June 30, 2007 using "Projected Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses.

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

2.6.2 Defined contribution plan

The company also operates a contributory scheme for all its employees under non-workmen category. Under this plan, every employee under non-workmen category is entitled to receive gratuity of one month salary based on last month on each year's service. The company accounts for liability against gratuity amount of each employee at year end and such liability is treated as full and final liability of that year. In future years, the liability amount is not revised for any increment or reduction in salary of any non-workmen.

2.7 Employee compensated absences

The company provides for compensated absences of its employees on unavailed balance of leave in the period in which the leave is earned.

2.8 Taxation

2.8.1 Current

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

2.8.2 Deferred

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

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

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

2.9 Property, plant and equipment

2.9.1 Company owned

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land, building and plant and machinery, which are stated at revalued amount and capital work in progress which is defined in note 2.9.3.

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

When parts of an item of Property, Plant and Equipment have different useful lives, they are recognised as a separate items of Property Plant and Equipment.

Depreciation is charged to income applying the reducing balance method at the rates specified in the note 13.

Depreciation on additions is charged on the basis of whole year, while no depreciation is charged on deletion during the year. Whereas, the capitalization of entire or part of project cost is depreciated proportionately from the date of capitalization.

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

Gains or losses on disposal of assets, if any, are recognised as and when incurred.

Surplus / deficit arising on revaluation is credited / debited to surplus on revaluation of property, plant and equipment. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is transferred by the company to its unappropriated profit.

2.9.2 Assets held under finance lease

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

2.9.3 Capital work-in-progress

Capital work-in-progress (CWIP) is stated at cost. All expenditures connected with the specific assets incurred during installation and construction period are carried under CWIP. These are transferred to specific assets as and when such assets are available for their intended use.

2.10 Investment

2.10.1 Available-for-sale investments

Investment securities held by the company are classified as being available-for-sale and are stated at fair value less impairment. Available - for - sale investments are initially

recognized at fair value transaction and gains and losses arising in changes in fair value are recognized directly in equity, until the investment is disposed off or is determined to be impaired, at which time the cumulative gain or loss previously recognized in the unrealized gain or loss in the value of securities available for sale is included in profit or loss for the period.

The fair value is determined on the basis of year-end bid prices which are rates quoted in Karachi Stock Exchange on last working day of the accounting year.

2.10.2 Held to maturity

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

2.10.3 Regular way purchase or sale of investments

All purchases and sales of investments are recognised using settlement date accounting. Settlement date is the date that the investments are delivered to or by the company.

2.10.4 Derecognition

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

2.11 Investment in associates

Associates are all entities over which the company has significant influence, but not control, generally accompanying a shareholding of 20% or more of the voting rights.

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

2.12 Stores, spares and loose tools

These are valued at lower of cost and net realizable value, except items in transit which are stated at cost accumulated upto the balance sheet date, applying the following basis:

Cost is determined using moving average cost method.

Net realizable value signifies the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Stock-in-trade

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

- Raw material - at weighted average cost.
- Material in transit - at cost accumulated upto the date of balance sheet.
- Work-in-process - at average manufacturing cost.
- Finished goods - at average manufacturing cost.
- Waste - at net realizable value.

Average cost in relation to work-in-process and finished goods signifies average manufacturing cost including a portion of related direct overheads. Net realizable value is determined on the basis mentioned in note 2.12.

2.14 Provisions

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

2.15 Trade debts and other receivables

Trade debts and other receivables are recognized and arrived at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

2.16 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All exchange differences are included in income currently.

2.17 Financial Instruments

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

Other particular recognition methods adopted by the company are disclosed in the individual policy statements associated with each item of financial instruments.

2.18 Offsetting

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.19 Impairment

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

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

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

2.20 Revenue recognition

Sales are recorded on dispatch of goods or on segregation of goods for delivery against confirmed customers' orders.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate.

2.21 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short term running finance under markup arrangements.

2.22 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 billed to company or not.

2.23 Critical judgments in applying the accounting policies

The preparation of the financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Assumptions and estimates use in the area of property, plant and equipment (refer note 13) a significant to the financial statements and it involves management's estimates.

ISSUED, SUBSCRIBED AND PAID-UP

June,30 2007 Number of shares	June,30 2006 Number of shares		June,30 2007 Rupees	June,30 2006 Rupees
2,000,000	2,000,000	Ordinary shares of Rs. 10 each fully paid in cash	20,000,000	20,000,000
1,038,700	1,038,700	For consideration other than cash	10,038,700	10,038,700
<u>3,038,700</u>	<u>3,038,700</u>	As bonus shares	<u>3,038,700</u>	<u>3,038,700</u>
<u>3,342,570</u>	<u>3,342,570</u>		<u>33,425,700</u>	<u>33,425,700</u>

- 3.1 There were no movements during the reporting period.
- 3.2 The Company has one class of ordinary shares which carries no right to fixed income.
- 3.3 Following shares were held by associate of the company as at the balance sheet date.

Number of Ordinary shares of Rs. 10 each

Island Textile Mills Limited	<u>366,300</u>	<u>366,300</u>
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- 3.4 The company has no reserved shares for issuance under options and sales contracts.

4. OTHER RESERVE

This represents the remission of principal amount payable to associated undertaking and directors in term of revival package in the year 1983.

5. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX

This represents surplus over book values resulting from the revaluation of property, plant and equipment carried out in 1994, 2003 and June 2005 (land only) by M/S Iqbal A. Nanjee & Co., adjusted by surplus realized on disposal of revalued assets, incremental depreciation arising out of revaluation and deferred taxation.

Surplus on revaluation of property, plant and equipment as at July 01,	583,302,129	602,239,670
Transferred to unappropriated profit on account of -incremental depreciation - net of deferred tax -disposal - net of deferred tax	(5,162,162) (289,184)	(7,097,789) (5,211,613)
Related deferred tax liability	(2,119,969) (7,571,315)	(6,628,139) (18,937,541)
Surplus on revaluation of property, plant and equipment as at June 30,	<u>575,730,814</u>	<u>583,302,129</u>
Related deferred tax liability on: Revaluation as at July 01, Adjustment due to income subject to FTR 5.1 Transferred to profit and loss account on account of -incremental depreciation - net of deferred tax -disposal - net of deferred tax	35,988,931 (7,197,786) (2,007,508) (112,461) <u>(26,671,176)</u> <u>549,059,638</u>	42,617,070 - (3,722,634) (2,905,505) <u>(35,988,931)</u> <u>547,313,198</u>

- 5.1 This represents the reversal of opening deferred tax liability balance due to the revision of deferred tax rate by 7% in order to incorporate the effect of export sales, which is fall in Final Tax Regime (FTR).

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
6. LONG-TERM FINANCING			
From banking companies - Secured			
Term finance	6.1	743,698,201	622,480,900
NIDF finance	6.2	5,702,063	8,236,313
Vehicle loan	6.3	7,518,008	3,552,833
From related parties-Unsecured			
Associate	6.4	60,000,000	70,000,000
Directors	6.5	<u>25,000,000</u>	<u>28,800,000</u>
		841,918,272	733,070,046
Current portion:			
Term finance	6.1	(143,798,312)	(57,842,900)
NIDF finance	6.2	(2,534,250)	(2,534,250)
Vehicle loan	6.3	(1,766,160)	(772,536)
		<u>(148,098,722)</u>	<u>(61,149,686)</u>
		<u>693,819,550</u>	<u>671,920,360</u>

- 6.1 Term finance carries mark-up at 6 months KIBOR plus rate ranging from 1.5% to 2% per annum (2006: KIBOR plus 1.5% to 2%). These are secured against joint pari passu charge over company's property, plant and equipment comprising of land, buildings, plant and machinery. These loans are further secured by way of hypothecation of stocks, receivables, book debts, pledge of cotton and imported merchandise and personal guarantees of sponsor directors of the company. The aggregate unavailed long term financing facilities available amounted to Rs. Nil (2006: Rs.31.703 million). These loans are repayable in 8 - 10 equal semi-annual instalments commenced from March / April 2006.

- 6.2 These are non interest demand finance (NIDF) secured against bank guarantee provided by director on behalf of the company and are repayable in sixteen equal quarterly installments commenced from November 2005.

- 6.3 These represent secured finances obtained from a banking company carrying mark-up rate ranging from 12% to 13% and are repayable in 60 equal monthly instalments commenced from the next month of loan obtained. These loans are secured against vehicles acquired from such loans.

- 6.4 These represent unsecured finance obtained from an associated company carrying mark-up at 6 months KIBOR plus 1.5%. Rs. 20 million is repayable in six equal half yearly instalments commencing from December 2008. Finance of Rs.40 million is subordinated in pursuant of agreement dated 26th June 2006 with Allied Bank Limited and is repayable after the repayment of term finance loan obtained from Allied Bank Limited amounting to Rs. 230 million.

- 6.5 These represent unsecured finance obtained from sponsor directors carrying mark-up at 6 months KIBOR plus 1.5% and is repayable in six equal half yearly instalments commencing from November 2009.

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

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

	June 30, 2007		June 30, 2006	
	Minimum lease paymentsRupees.....	Present Value	Minimum lease paymentsRupees.....	Present Value
Within one year	930,383	863,682	2,713,454	2,564,218
After one year but not more than five years	318,294	305,584	1,249,667	1,176,611
Total minimum lease payments	1,248,677	1,169,266	3,963,121	3,740,829
Less : Amount representing finance charges	(79,411)	-	(222,292)	-
Present value of minimum lease payments	1,169,266	1,169,266	3,740,829	3,740,829
Less : Current portion	(863,682)	(863,682)	(2,564,218)	(2,564,218)
	305,584	305,584	1,176,611	1,176,611

7.1 These represent finance leases entered into with leasing companies for plant and machinery and vehicles. Rates of finance charges ranges from 6.5% to 10.74% (2006: 6.5% to 10.74%) per annum and are used as discounting factors. The lease terms are of 3 to 5 years.

7.2 The company intends to exercise the option to purchase the leased assets upon completion of the lease periods.

7.3 Liabilities are secured against demand promissory notes and security deposits.

8. DEFERRED LIABILITIES	Notes	June 30,	June 30,
		2007	2006
		Rupees	Rupees
Staff gratuity	8.1	12,332,926	8,598,108
Compensated absences		1,008,872	992,387
Deferred taxation	8.2	44,802,329	67,345,414
		<u>58,144,127</u>	<u>76,935,909</u>
8.1 Staff gratuity			
Workmen	8.1.1	2,105,134	1,029,373
Non-workmen	8.1.2	10,227,792	7,568,735
		<u>12,332,926</u>	<u>8,598,108</u>
8.1.1 Workmen - Defined benefit plan			
(a) Movement in liability			
Opening balance		1,029,373	2,870,105
Charge for the year as below		3,076,147	1,245,539
Paid during the year		(2,000,386)	(3,086,271)
Closing balance		<u>2,105,134</u>	<u>1,029,373</u>
(b) Reconciliation			
Present value of defined benefit obligation		4,308,244	4,069,796
Unrecognized actuarial loss		(2,203,110)	(3,040,423)
		<u>2,105,134</u>	<u>1,029,373</u>

	June 30, 2007 Rupees	June 30, 2006 Rupees
(c) Charge for the year		
Current service cost	2,490,412	821,441
Interest cost	366,281	389,240
Actuarial loss recognized	219,454	34,858
	<u>3,076,147</u>	<u>1,245,539</u>
(d) Changes in the present value of the defined benefit obligation		
Opening balance	4,069,796	4,324,887
Current service cost	2,490,412	821,441
Interest cost	366,281	389,240
Actuarial (gain) / loss	(617,859)	1,620,499
Benefits paid	(2,000,386)	(3,086,271)
Closing balance	<u>4,308,244</u>	<u>4,069,796</u>
(e) The principal assumptions used in the valuation of gratuity are as follows:		
Discount rate	10.00%	9.00%
Expected rate of salary increase	9.50%	8.50%

(f) Amounts for the current and previous four periods are as follows:

	2007	2006	2005	2004	2003
Present value of the defined benefit obligation	4,308,244	4,069,796	4,324,887	3,221,258	3,559,518
Fair value of Plan assets	-	-	-	-	-
Surplus / (Deficit)	4,308,244	4,069,796	4,324,887	3,221,258	3,559,518
Experience adjustments on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	-	-	-	-	-

	June 30, 2007 Rupees	June 30, 2006 Rupees
8.1.2 Non-workmen - Defined contribution plan		
Opening balance	7,568,735	6,547,380
Charge for the year	3,492,732	2,015,542
Paid during the year	(833,675)	(994,187)
Closing balance	<u>10,227,792</u>	<u>7,568,735</u>

8.2	Deferred taxation	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
	This comprises of the following :			
	Deferred tax liabilities on taxable temporary differences arising arising in respect of :			
	Accelerated tax depreciation		17,278,281	30,870,457
	Investment in associates		4,306,091	3,495,364
	Surplus on revaluation of property, plant and equipment	5	<u>26,671,176</u>	<u>35,988,931</u>
			<u>48,255,548</u>	<u>70,354,752</u>
	Deferred tax assets on deductible temporary difference arising in respect of:			
	staff gratuity		<u>(3,453,219)</u>	<u>(3,009,338)</u>
			<u>44,802,329</u>	<u>67,345,414</u>
9.	TRADE AND OTHER PAYABLES			
	Creditors		13,437,364	12,573,321
	Accrued liabilities	9.1	37,671,213	32,761,948
	Withholding income tax		454,813	160,624
	Workers' Profit Participation Fund	9.2	-	278,669
	Workers' Welfare Fund		1,856,972	1,805,618
	Unclaimed dividend		377,365	322,531
	Others		<u>459,541</u>	<u>-</u>
			<u>54,257,268</u>	<u>47,902,711</u>
9.1	This includes Rs. 11,945,888 (2006: Rs. 11,578,328) payable to an associated undertaking in respect of power charges.			
9.2	Workers' Profit Participation Fund			
	Opening balance		278,669	43,956
	Allocation during the year	9.2.1	-	278,669
	Interest on funds utilized in the company's business		<u>9,620</u>	<u>1,703</u>
			288,289	324,328
	Amount paid to the fund		<u>(288,289)</u>	<u>(45,659)</u>
	Closing balance		<u>-</u>	<u>278,669</u>
9.2.1	Since, in the current year there is loss for the year, no WPPF has been allocated during the year.			
10.	ACCRUED INTEREST / MARK-UP ON LOANS			
	Long-term financing			
	- from banking companies		13,330,165	25,501,741
	- from associate		2,419,938	1,834,208
	- from directors		810,963	360,552
	Short-term borrowings		<u>7,565,466</u>	<u>13,458,959</u>
			<u>24,126,532</u>	<u>41,155,460</u>

		June 30, 2007 Rupees	June 30, 2006 Rupees
11. SHORT-TERM BORROWINGS			
From banking companies- Secured			
Running finances	11.1	1,517,144	500,352,703
Foreign exchange loans	11.2	274,971,666	64,616,014
		<u>276,488,810</u>	<u>564,968,717</u>

11.1 The company has aggregated running finance facilities amounting to Rs. 275 million (2006: Rs. 710 million) from various commercial banks. These are subject to mark-up ranging from 3 month KIBOR plus 1% to 1.5% (2006: 0.75 % to 1%). These are secured against hypothecation charge over raw material, finished goods, store and spares, receivables and personal guarantee of sponsor directors.

11.2 The company has aggregated finance facilities amounting to Rs. 500 million (2006: Rs. 500 million) from a commercial bank. These carrying mark-up at 6 months LIBOR plus 1.5% (2006: LIBOR + 1%).

12. CONTINGENCIES AND COMMITMENTS

Contingencies

Bank guarantees	18,534,000	6,422,400
Labour and workmen compensation cases in court of law	407,287	200,150
Penal interest	145,366	145,366
Export bills	116,148,083	-

Commitments

Civil works and machinery.	4,447,040	21,446,842
Letters of credit for stock and stores.	301,140,242	38,955,893

13. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2007 Rupees	June 30, 2006 Rupees
Operating assets	13.1	1,344,816,571	812,651,118
Capital work in progress	13.5	10,702,012	567,762,137
		<u>1,355,518,583</u>	<u>1,380,413,255</u>

13.1 Operating Assets

Particulars	Cost / revaluation at July 01, 2006	Additions / Transfers during the year	Disposal during the year	Cost / revaluation at June 30, 2007	Accumulated depreciation at July 01, 2006	Depreciation for the year / transfers	Disposal / Adjustment	Accumulated depreciation at June 30, 2007	Written down value at June 30, 2007	Rate %
R U P E E S										
Company owned										
Land - lease hold	481,440,000	-	-	481,440,000	-	-	-	-	481,440,000	-
Buildings on lease hold land										
- Factory	89,979,726	83,907,178	-	173,886,904	22,562,416	10,592,714	-	33,155,130	140,731,774	7
- Non Factory	118,900	-	-	118,900	38,723	8,018	-	46,741	72,159	10
Office Premises	450,000	-	-	450,000	364,297	8,570	-	372,867	77,133	10
Plant and machinery	289,132,156	500,757,279 * 8,000,000	(10,011,415)	787,878,020	64,115,564	50,698,677 * 3,144,860	(3,649,222)	114,309,879	673,568,141	7
Airconditioner , gas and electric installations	28,917,085	16,587,727	(188,000)	45,316,812	16,230,226	2,926,640	(179,818)	18,977,048	26,339,764	10
Factory equipment	6,222,508	574,368	-	6,796,876	3,724,244	307,263	-	4,031,507	2,765,369	10
Furniture and fixtures	4,794,258	1,658,810	-	6,453,068	3,022,408	343,066	-	3,365,474	3,087,594	10
Office equipment	8,278,705	1,041,459	-	9,320,164	5,681,383	751,898	-	6,433,281	2,886,883	10-30
Office renovation	1,346,681	-	-	1,346,681	976,941	36,974	-	1,013,915	332,766	10
Vehicles	18,696,360	2,674,950	(1,063,985)	20,307,325	11,298,043	1,967,032	(825,875)	12,439,200	7,868,125	20
	929,376,379	607,201,771 * 8,000,000	(11,263,400)	1,533,314,750	128,014,245	67,640,852 * 3,144,860	(4,654,915)	194,145,042	1,339,169,708	
Assets held under finance lease										
Plant and machinery	14,334,760	*(8,000,000)	-	6,334,760	5,635,102	269,116 * 3,144,860	-	2,759,358	3,575,402	7
Vehicles	5,631,110	-	-	5,631,110	3,041,784	517,865	-	3,559,649	2,071,461	20
	19,965,870	*(8,000,000)	-	11,965,870	8,676,886	786,981 * 3,144,860	-	6,319,007	5,646,863	
June 30, 2007	949,342,249	607,201,771	(11,263,400)	1,545,280,620	136,691,131	68,427,833	(4,654,915)	200,464,049	1,344,816,571	

* Represents transfer from leased assets on maturity of leasing arrangements.

Particulars	Cost / revaluation at July 01, 2005	Additions during the year	Disposal during the year	Cost / revaluation at June 30, 2006	Accumulated depreciation at July 01, 2005	Depreciation for the year / transfers	Disposal / Adjustmen t	Accumulated depreciation at June 30, 2006	Written down value at June 30, 2006	Rate %
R U P E E S										
Company owned										
Land - lease hold	481,440,000	-	-	481,440,000	-	-	-	-	481,440,000	-
Buildings on lease hold land										
- Factory	89,979,726	-	-	89,979,726	15,071,604	7,490,812	-	22,562,416	67,417,310	10
- Non Factory	118,900	-	-	118,900	29,814	8,909	-	38,723	80,177	10
Office Premises	450,000	-	-	450,000	354,774	9,523	-	364,297	85,703	10
Plant and machinery	291,806,796	23,622,874	(26,297,514)	289,132,156	43,518,554	25,001,844	(4,404,834)	64,115,564	225,016,592	10
Airconditioner , gas and electric installations	28,890,985	26,100	-	28,917,085	14,820,575	1,409,651	-	16,230,226	12,686,859	10
Factory equipment	6,222,508	-	-	6,222,508	3,446,660	277,584	-	3,724,244	2,498,264	10
Furniture and fixtures	4,743,532	50,726	-	4,794,258	2,825,536	196,872	-	3,022,408	1,771,850	10
Office equipment	7,840,918	437,787	-	8,278,705	5,068,287	613,096	-	5,681,383	2,597,322	10-30
Office renovation	1,346,681	-	-	1,346,681	935,859	41,082	-	976,941	369,740	10
Vehicles	12,215,971	6,480,389	-	18,696,360	9,448,464	1,849,579	-	11,298,043	7,398,317	20
	925,056,017	30,617,876	(26,297,514)	929,376,379	95,520,127	36,898,952	(4,404,834)	128,014,245	801,362,134	
Assets held under finance lease										
Plant and machinery	14,334,760	-	-	14,334,760	4,668,473	966,629	-	5,635,102	8,699,658	10
Vehicles	5,631,110	-	-	5,631,110	2,394,453	647,331	-	3,041,784	2,589,326	20
	19,965,870	-	-	19,965,870	7,062,926	1,613,960	-	8,676,886	11,288,984	
June 30, 2006	945,021,887	30,617,876	(26,297,514)	949,342,249	102,583,053	38,512,912	(4,404,834)	136,691,131	812,651,118	

		June 30, 2007 Rupees	June 30, 2006 Rupees
13.2	Depreciation for the year has been allocated as under:		
	Cost of goods manufactured	23.1	65,931,271
	Administrative expenses	25	2,496,562
		<u>68,427,833</u>	<u>38,512,912</u>

13.2.1 During the year, the Company has changed the depreciation rates on building and plant and machinery from 10% to 7%. Had there been no such change in accounting estimate, the depreciation charge for the year would have been higher by Rs.26,383,075 and the carrying amount would have been lower by the same amount.

13.3 Had there been no revaluation, the related figures of freehold land, building and plant and machinery at June 30, 2007 would have been as follows :

	June 30, 2007			June 30, 2006		
	Cost	Accumulated Depreciation	Written down Value	Cost	Accumulated Depreciation	Written down Value
	Rupees			Rupees		
Freehold land	963,387	-	963,387	963,387	-	963,387
Building	129,070,138	35,763,754	93,306,384	45,162,960	28,740,693	16,422,267
Plant and machinery	863,940,254	238,200,925	625,739,329	364,658,327	191,472,210	173,186,117
	<u>993,973,779</u>	<u>273,964,679</u>	<u>720,009,100</u>	<u>410,784,674</u>	<u>220,212,903</u>	<u>190,571,771</u>

13.3.1 Revaluation of land, building and plant and machinery had been carried out in 1994, 2003 and June 2005 (land only) by independent professional valuers M/s. Iqbal A. Nanjee & Co. on the basis of market value or depreciated replacement values as applicable.

13.4 Disposal of property, plant and equipment by negotiations

Particulars and mode of disposal	Cost	Accumulated depreciation	Written down value	Sale proceed	Name and Address
	Rupees				
Plant and Machinery	1,000,000	250,750	749,250	1,130,000	Abdul Majid Sons 27-A New Cloth Market . M.A. Jinnah road Karachi
Plant and Machinery	2,000,000	786,215	1,213,785	1,687,500	Diamond International Corp. Limited 702, UNI Tower , I.I Chundrigar road Karachi
Plant and Machinery	6,000,000	2,358,645	3,641,355	5,100,000	Diamond International Corp. Limited 702, UNI Tower , I.I Chundrigar road Karachi
Plant and Machinery	11,415	2,862	8,553	20,000	Lucky Cotton Mills (Pvt) Ltd. A-240, S.I.T.E, Nooriabad
Plant and Machinery	1,000,000	250,750	749,250	1,300,000	Island Textile Mills Ltd. A-12, S.I.T.E , Kotri, Dist.Dadu.
Airconditioner , gas and electric installations	188,000	179,818	8,182	35,000	Shazil Pakistan (Pvt) Limited NC-158, Deh Tore, Gadap
Vehicles	682,495	530,420	152,075	273,000	Mr. Shahid Abdul Ghaffar House # C-18, Gulshan-e-Jamal Block - B, Karachi.
Vehicles	381,490	295,455	86,035	175,000	Mr. Shahid Abdul Ghaffar House # C-18, Gulshan-e-Jamal Block - B, Karachi.
2007 Rupees	<u>11,263,400</u>	<u>4,654,915</u>	<u>6,608,485</u>	<u>9,720,500</u>	
2006 Rupees	<u>26,297,514</u>	<u>4,404,834</u>	<u>21,892,680</u>	<u>15,252,500</u>	

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
13.5 Capital work in Progress			
Civil work	13.5.1	3,949,467	57,657,340
Machinery under installation	13.5.2	-	464,470,831
Capital inventory items	13.5.4	4,817,545	45,164,966
Vehicles	13.5.5	<u>1,935,000</u>	<u>469,000</u>
		<u>10,702,012</u>	<u>567,762,137</u>
13.5.1 Civil work			
Opening balance		57,657,340	36,853,995
Addition during the year		<u>23,335,168</u>	<u>20,803,345</u>
		80,992,508	57,657,340
Less : Transfer during the year		(77,043,041)	-
Closing balance		<u>3,949,467</u>	<u>57,657,340</u>
13.5.2 Machinery under installation			
Opening balance		464,470,831	9,096,817
Addition during the year		10,440,900	434,589,223
Loss on trial run operations	13.5.3	-	20,784,791
		<u>474,911,731</u>	<u>464,470,831</u>
Less : Transfer during the year		(474,911,731)	-
Closing balance		<u>-</u>	<u>464,470,831</u>
13.5.3 Trial production losses			
Sales (including export sales of Rs. 3,376,452)		-	66,902,977
Cost of goods sold		-	64,653,307
Selling expenses		-	626,388
Finance cost		-	22,408,073
		<u>-</u>	<u>(87,687,768)</u>
Net loss		<u>-</u>	<u>(20,784,791)</u>
13.5.4 Capital inventory items			
Opening balance		45,164,966	-
Addition during the year		<u>11,602,325</u>	<u>45,164,966</u>
		56,767,291	45,164,966
Less : Transfer during the year		(51,949,747)	-
Closing balance		<u>4,817,544</u>	<u>45,164,966</u>
13.5.5 Vehicles			
Opening balance		469,000	-
Addition during the year		<u>1,935,000</u>	<u>469,000</u>
		2,404,000	469,000
Less : Transfer during the year		(469,000)	-
Closing balance		<u>1,935,000</u>	<u>469,000</u>

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
14. LONG -TERM INVESTMENTS			
Investment in associate	14.1	112,154,295	99,907,230
Investments - available-for-sale	14.2	3,640,627	1,418,953
		<u>115,794,922</u>	<u>101,326,183</u>
14.1 Investment in TATA Textile Mills Limited (TTML) - an associated undertaking			
Balance as at July 01,		99,907,230	92,049,008
Share of associate's transfer of revaluation surplus on account of incremental depreciation		2,574,856	2,884,008
Share of profit from associate		13,639,709	8,941,714
Dividend received		(3,967,500)	(3,967,500)
		<u>12,247,065</u>	<u>7,858,222</u>
Total	14.1.1	<u>112,154,295</u>	<u>99,907,230</u>
Number of shares held		3,967,500	3,967,500
Cost of investments (Rupees)		30,000,000	30,000,000
Ownership interest		<u>22.90%</u>	<u>22.90%</u>
14.1.1	The market value of investment is Rs. 97,997,250 (2006: Rs. 119,025,000)		
14.1.2	Summarized financial highlights of TATA Textile Mills Limited for the year ended June 30, 2007 as follows:		
Total assets as at		2,608,548,496	2,555,775,348
Total liabilities as at		2,006,703,919	1,996,168,075
Sales		2,381,978,442	2,097,249,218
Profit for the year		59,562,054	39,046,785
14.2 Investments - Available-for-sale			
Opening balance		1,418,953	1,342,737
Aquired during the year		-	324,330
Unrealized gain / (Loss) charged to equity		2,221,674	(248,114)
Closing balance		<u>3,640,627</u>	<u>1,418,953</u>
14.2.1	This represents investment in 162,166 ordinary shares of Rs. 10 each (2006: 162,166 Ordinary shares) in Crescent Commercial Bank Limited.		
15. STORES, SPARES AND LOOSE TOOLS			
Stores		10,963,602	8,168,626
Spares		2,779,654	2,711,733
Loose tools		122,524	82,445
		<u>13,865,780</u>	<u>10,962,804</u>

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
16. STOCK-IN-TRADE			
Raw material	16.1	140,118,616	345,179,563
Work-in-process		15,706,602	18,951,873
Finished goods	16.2	81,437,993	158,111,748
Waste		890,989	1,099,382
		<u>238,154,200</u>	<u>523,342,566</u>

16.1 It includes raw material in transit amounting to Rs. 4,431,479 (2006 : Nil).

16.2 Finished goods of Rs. 36,423 (2006: Rs.12,082,138) carried at net realizable value.

17. TRADE DEBTS - CONSIDERED GOOD

Secured			
- export	17.1	6,727,352	3,376,452
Unsecured			
- local		178,059,186	137,733,469
		<u>184,786,538</u>	<u>141,109,921</u>

17.1 These are secured against letter of credit in favour of the company.

18. LOANS AND ADVANCES — UNSECURED

Considered good

Due from employees		2,502,745	2,327,454
Advances to creditors		1,145,951	1,101,248
Advance income tax		70,061,997	58,175,602
Advance against letters of credit		22,774,811	18,436,433
		<u>96,485,504</u>	<u>80,040,737</u>

19. TRADE DEPOSITS

Bank guarantee margin		-	800,000
Deposits		22,825	109,900
		<u>22,825</u>	<u>909,900</u>

20. OTHER FINANCIAL ASSETS

Investments - Held to maturity	20.1	<u>3,639,628</u>	<u>1,806,392</u>
--------------------------------	------	------------------	------------------

20.1 This represents investment made in term deposit receipts held for a period of twelve months with a mark-up rate of 4.5% per annum.

21. CASH AND BANK BALANCES

Cash at bank			
- in current accounts		31,507,956	3,895,827
- in saving accounts		736,543	1,076,218
		32,244,499	4,972,045
Cash in hand		424,208	534,158
		<u>32,668,707</u>	<u>5,506,203</u>

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
22. SALES- net			
Export Yarn		319,974,234	-
Local Yarn		1,334,782,651	822,736,353
Waste		14,728,769	1,026,355
		1,349,511,420	823,762,708
Discount		(8,892,245)	(9,138,170)
		<u>1,660,593,409</u>	<u>814,624,538</u>
23. COST OF GOODS SOLD			
Cost of goods manufactured	23.1	1,422,929,440	703,854,972
Finished goods			
Opening stock		120,373,871	136,540,288
Stock of trial production		38,837,259	-
Closing stock		(82,328,982)	(120,373,871)
		<u>76,882,148</u>	<u>16,166,417</u>
		<u>1,499,811,588</u>	<u>720,021,389</u>
23.1 Cost of goods manufactured			
Raw material consumed	23.1.1	1,041,027,975	480,236,360
Packing material consumed		28,283,597	10,001,437
Stores and spares consumed		22,692,601	18,756,108
Salaries, wages and benefits	23.1.2	114,429,941	69,065,170
Power and fuel		133,938,528	74,506,922
Insurance		3,866,881	2,213,322
Repairs and maintenance		2,679,854	997,695
Depreciation	13.2	65,931,271	36,198,858
Other overheads		6,833,521	4,756,829
		<u>1,419,684,169</u>	<u>696,732,701</u>
Work-in-process			
Opening stock		9,511,946	16,634,217
Stock of trial production		9,439,927	-
Closing stock		(15,706,602)	(9,511,946)
		<u>3,245,271</u>	<u>7,122,271</u>
		<u>1,422,929,440</u>	<u>703,854,972</u>
23.1.1 Raw material consumed			
Opening stock		345,179,563	119,619,447
Purchases - net	23.1.3	835,967,028	793,052,216
		1,181,146,591	912,671,663
Transferred to trial production		-	(87,255,740)
Closing stock		(140,118,616)	(345,179,563)
		<u>1,041,027,975</u>	<u>480,236,360</u>

23.1.2 Salaries, wages and benefits include Rs. 5,291,293 (2006 : 2,154,680) in respect of staff retirement benefits.

23.1.3 It includes raw material in transit amounting to Rs. 4,431,479 (2006 : Nil).

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
24. DISTRIBUTION COST			
Local freight and handling		8,617,088	6,233,589
Sea freight		10,478,667	-
Export expenses		4,429,954	-
Brokerage and commission		14,357,260	3,435,187
Others		1,568,594	400,000
		<u>39,451,563</u>	<u>10,068,776</u>
25. ADMINISTRATIVE EXPENSES			
Directors' remuneration		1,781,600	1,553,390
Staff salaries and benefits	25.1	21,032,340	16,593,190
Postage and telephone		1,013,901	1,247,114
Printing and stationery		638,478	461,450
Travelling and conveyance		1,574,030	1,103,974
Legal and professional		459,447	861,092
Rent, rate and taxes		274,750	283,494
Utilities		943,678	1,001,077
Advertisement		8,000	8,000
Vehicles running		1,194,256	1,287,336
Auditors' remuneration	25.2	475,000	723,520
Depreciation	13.2	2,496,562	2,314,054
Repairs and maintenance		890,272	642,856
Other		2,450,288	1,946,189
		<u>35,232,602</u>	<u>30,026,736</u>
25.1	Staff salaries and benefits include Rs. 1,277,585 (2006 : Rs. 1,106,401) in respect of the staff retirement benefits.		
25.2	Auditors' remuneration		
	Audit fee	125,000	125,000
	Out of pocket expenses	10,000	8,520
	Half yearly review fee	40,000	40,000
	Other assignments	300,000	550,000
		<u>475,000</u>	<u>723,520</u>
26. OTHER OPERATING EXPENSES			
Workers' Profit Participation Fund		-	278,669
Workers' Welfare Fund		255,979	204,788
Loss on disposal of property, plant and equipment		-	6,640,180
		<u>255,979</u>	<u>7,123,637</u>

	Notes	June 30, 2007 Rupees	June 30, 2006 Rupees
27. OTHER OPERATING INCOME			
Profit on savings accounts		154,576	125,090
Profit on term deposits		36,932	73,423
Exchange gain		1,048,484	-
Operating profit on trading of raw material	27.1	551,455	100,753
Miscellaneous income		6,315,203	-
Gain on disposal of property, plant and equipment		3,112,015	-
		<u>11,218,665</u>	<u>299,266</u>
27.1 OPERATING PROFIT ON TRADING OF RAW MATERIAL			
Sales		3,923,273	892,248
Less : Cost of sale		<u>(3,371,818)</u>	<u>(791,495)</u>
		<u>551,455</u>	<u>100,753</u>
28. FINANCE COST			
Mark-up on :			
Long-term financing			
- from banking companies		72,554,883	16,252,630
- from associated company		9,698,004	7,226,426
- from directors		3,339,806	360,552
Short-term borrowings		38,916,406	23,899,035
Lease finance charges		239,790	671,628
Interest on Workers' Profit Participation Fund		9,620	1,703
Discounting charges		9,692,449	-
Bank charges and guarantee commission		768,287	823,260
		<u>135,219,245</u>	<u>49,235,234</u>
29. TAXATION			
Current		8,520,958	4,610,474
Deferred		<u>(15,474,038)</u>	<u>(4,553,691)</u>
		<u>(6,953,080)</u>	<u>56,783</u>
29.1	The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.		
29.2	The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.		

**June 30,
2007
Rupees** **June 30,
2006
Rupees**

30. EARNINGS PER SHARE - BASIC AND DILUTED

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

(Loss) / profit for the year	Rs.	<u>(17,566,114)</u>	<u>7,332,963</u>
Weighted average number of Ordinary shares outstanding during the year		<u>3,342,570</u>	<u>3,342,570</u>
Earnings per share	Rs.	<u>(5.26)</u>	<u>2.19</u>

31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	June 30,2007			June 30,2006		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
 Rupees.....					
Meeting fees	-	32,000	-	-	32,000	-
Remuneration	1,749,600	-	14,265,410	1,521,390	-	9,174,079
Retirement benefits	-	-	2,623,907	-	-	928,870
	<u>1,749,600</u>	<u>32,000</u>	<u>16,889,317</u>	<u>1,521,390</u>	<u>32,000</u>	<u>10,102,949</u>
No. of person	<u>1</u>	<u>6</u>	<u>10</u>	<u>1</u>	<u>6</u>	<u>9</u>

31.1 The Chief Executive is entitled for the reimbursement of residential telephone and other utilities. The approximate amount of such benefit was Rs.551,620 (2006 : Rs.159,270).

**June 30,
2007
Rupees** **June 30,
2006
Rupees**

32. PLANT CAPACITY AND ACTUAL PRODUCTION

Number of spindles installed	36,324	36,324
Number of spindles worked	36,324	36,324
Number of shifts per day	3	3
Installed capacity after conversion into 20/s count-kgs	12,357,535	13,529,339
Actual production of yarn after conversion into 20/s count-kgs	13,723,758	10,046,675

33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Interest rate / mark-up risk

Interest / mark-up rate risk arise from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. The effective interest/mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

33.2 The analysis of interest rate / markup rate risk is as under :

	Interest bearing			Non-interest bearing			2007 Total Rupees	2006 Total Rupees
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total		
Financial assets								
Long- term investments	-	-	-	-	115,794,922	115,794,922	115,794,922	101,326,183
Long- term deposits	-	-	-	-	993,688	993,688	993,688	993,688
Trade debts-considered good	-	-	-	184,786,538	-	184,786,538	184,786,538	141,109,921
Trade deposits	-	-	-	22,825	-	22,825	22,825	909,900
Loans and advances	-	-	-	2,502,745	-	2,502,745	2,502,745	2,327,454
Other financial assets	3,639,628	-	3,639,628	-	-	-	3,639,628	1,806,392
Cash and bank balances	736,543	-	736,543	31,932,164	-	31,932,164	32,668,707	5,506,203
Total	4,376,171	-	4,376,171	219,244,272	116,788,610	336,032,882	340,409,053	253,979,741
Financial liabilities								
Long- term financing	148,098,722	693,819,550	841,918,272	-	-	-	841,918,272	733,070,046
Liabilities against asset subject to finance lease	863,682	305,584	1,169,266	-	-	-	1,169,266	3,740,829
Trade and other payables	-	-	-	51,485,942	-	51,485,942	51,485,942	39,342,597
Interest / mark-up on loans	-	-	-	24,126,532	-	24,126,532	24,126,532	41,155,460
Short- term borrowings	276,488,810	-	276,488,810	-	-	-	276,488,810	564,968,717
Total	425,451,214	694,125,134	1,119,576,348	75,612,474	-	75,612,474	1,195,188,822	1,382,277,649
Off balance sheet items:								
Bank gurantees	-	-	-	-	-	-	18,534,000	16,422,400
Export Bills	-	-	-	-	-	-	116,148,083	-
Civil works	-	-	-	-	-	-	4,447,040	21,446,842
Letters of credit	-	-	-	-	-	-	301,140,242	38,955,893
Total	-	-	-	-	-	-	440,269,365	76,825,135
on balance sheet gap	(421,075,043)	(694,125,134)	(1,115,200,177)	143,631,798	116,788,610	260,420,408	(854,779,769)	(1,128,297,908)
Off balance sheet gap	-	-	-	-	-	-	(440,268,365)	(76,825,135)

33.3 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs.340,409,053 (2006: Rs. 253,979,741), the financial asset which are subject to credit risk amounted to Rs.339,984,845 (2006: Rs. 253,445,583). The company believes that it is exposed to major concentration of credit risk. The management monitors and limits the company's exposure of credit risk through assets, if any, limiting transactions with specific counter parties and continually assessing the credit worthiness of counter parties.

33.4 Liquidity risk

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

33.5 Foreign exchange risk

Foreign exchange risk arises mainly due to conversion of foreign currency assets and liabilities into local currency. The company is not materially exposed to foreign currency risk on assets and liabilities.

33.6 Fair values of financial instruments

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

34. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, key management personnel and post employment benefit scheme. The company in the normal course of business carries out transactions with various related parties. Long term loans acquired from associated undertaking and director and accrued mark-up thereon are disclosed in note 6 and 10 respectively whereas, amount due from associated undertaking is disclosed in note 9. Remuneration of key management personnel is disclosed in note 31 and amount due in respect of staff retirement benefits are disclosed in note 8. Other significant transactions with related parties are as follows:

Relationship with the company	Nature of transactions	June 30, 2007 Rupees	June 30, 2006 Rupees
Associated undertakings	Purchase of power	131,510,529	82,475,192
	Sale of property, plant and equipment	1,300,000	577,500
	Sale of goods	77,697,400	9,110,750
	Purchase of goods	47,065,272	-
	Share of expenses paid	1,097,579	764,789
	Share of expenses received	901,461	1,013,453
	Rent expense	765,780	765,780
	Mark-up on long term loan	13,037,813	7,075,817
	Long term loans obtained	15,000,000	-
	Purchase of store items	16,000	316,305
	Purchase of fixed asset	51,917	9,000,000
	Dividend paid	366,300	366,300
	Dividend received	3,967,500	3,967,500
	Sale of store items	53,400	212,000

35. SUBSEQUENT EVENTS

The Board of Director proposed the final dividend for the year ended June 30, 2007 of Re.1.00 per share (2006: Re. 1.00 per share) amounting to Rs. 3.43 million (2006: Rs 3.43 million) at their meeting held on September 11, 2007 for the approval of the meeting at the Annual General Meeting to be held on October 17, 2007. These financial statements do not reflect dividend payable.

36. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the board of directors of the company and authorised for issue on September 11, 2007.

37. RECLASSIFICATION

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant reclassifications made are as follows:

From	To	Nature	Amount re-classified Rupees
Sales	Other operating income	Operating profit on trading of raw material	892,248
Cost of sales	Other operating income	Operating profit on trading of raw material	791,495
Sales	Distribution cost	Brokerage and commission	3,435,187



ANWAR AHMED TATA
CHIEF EXECUTIVE OFFICER



SHAHID ANWAR TATA
DIRECTOR

PROXY FORM

SALFI TEXTILE MILLS LIMITED

8, 8th Floor, Textile Plaza,
M. A. Jinnah Road, Karachi.

I/We _____

of _____

being a member(s) of **SALFI TEXTILE MILLS LIMITED** and holder of _____

Ordinary Shares, do hereby appoint _____

of _____

or falling him/her _____

of _____

a member of **SALFI TEXTILE MILLS LIMITED**, vide Registered Folio No. _____

as my/our proxy to act on my/our behalf at the 40th Annual General Meeting of the Company to be held on Wednesday the October 17, 2007 at 3 : 30 P.M. and/or at any adjournment thereof.

Signature this _____ day of _____ 2007.

Signature

Affix Five Rupees Revenue Stamp
--

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

NOTE

1. No proxy shall be valid unless it is duly stamped with a revenue stamp worth Five Rupees.
2. In the case of Bank or Company, the proxy form must be executed under its Common seal and signed by its authorized person.
3. If this proxy form is signed under a power of attorney or other authority then a notarially certified copy of that power of attorney/authority must be deposit alongwith this proxy form.
4. This form of proxy duly completed must be deposited at the Registered Office of Company at least 48 hours before the time of holding the meeting.