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COMPANY INFORMATION

BOARD OF DIRECTORS

CHAIRMAN: Mr. Anwar Ahmed Tata

CHIEF EXECUTIVE: Mr. Shahid Anwar Tata

DIRECTORS: Mr. Adeel Shahid Anwar Tata
Mr. Ajaz Ahmed Tariq
Mr. Farooq Advani
Mr. Javed Ahmed
Mr. Kausar Ejaz

AUDIT COMMITTEE

CHAIRMAN: Mr. Anwar Ahmed Tata

MEMBERS: Mr. Javed Ahmed
Mr. Kausar Ejaz

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER:

Mr. Farooq Advani

BANKERS:

The Royal Bank of Scotland Limited
Bank Al-Falah Limited
MCB Bank Limited
Soneri Bank Limited

AUDITORS:

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

LEGAL ADVISOR:

Dr. Raees M. Mushtaq & Co.
Advocate.

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:

A/12, S.I.T.E. Kotri
District Jamshoro (Sindh)

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.

CHAIRMAN'S REVIEW

Assalam-o-Alaikum,

Alhamdulillah, it is a pleasure to welcome you to the 39th Annual General Meeting of the company in order to consider the Company's annual report for the year ended June 30, 2008.

This has been a very difficult year and in last 9 years, for the first time we have to report a loss. The company made a pre-tax loss of Rs.33.166 million as compared to pre-tax profit of Rs.18.344 million during the last year.

Besides several set backs the most significant reason for loss is attributed to the fire incident on 28th December, 2007 in which certain assets of the Company consisting of Stocks, Stores & Spares, Property, Plant and Equipments were destroyed/lost. The Loss in monetary term comes to a very large amount and only part of it could be recovered in shape of ex-gratia from the insurance companies. EFU, Excel and Adamjee paid as per arrangements whereas Askari has paid almost what was their commitment. Some amount is remaining with PICIC. Consequent to this fire incident our mills remained completely shut down from 28th December 2007 till 13th January 2008 i.e. for 18 days and production and quality was disturbed for almost 30 days which resulted in further loss of about Rs.18 million.

YARN /RAW MATERIAL SITUATION

Pakistan has remained a net importer of cotton during last few years and that has kept the local cotton prices at import parity rather than at export parity. With an estimated consumption of about 16 million bales last year, Pakistan has had to import 4 million bales since the crop size was about 11.3 million bales. The Textile spinners would not have had to pay a difference of about Rs.300 between import and export parity had there been surplus cotton in Pakistan. We feel yet again in the coming year we would remain a net importer of cotton. In 2008-09, it is estimated that the cotton crop size would be about 12.5 million bales and we estimate a consumption of less than 15 million bales. Hence, we would yet be importing about 2 million bales of cotton. This would keep local prices of cotton at import parity.

The world's 2 largest producers and exporters of cotton, USA and India would have a large surplus of cotton; USA having about 14 million bales and India about 8 million bales for export. Hopefully, these two sources will have plenty of cotton for Pakistan.

The inventory level of cotton with the mills in Pakistan as well as all over the world is very low. We feel that a slight change in sentiments can increase the purchase which can push the prices upward internationally. However, with the poor economic conditions confronting the whole world, it is likely that the cotton prices shall remain under pressure and we will have to be very careful while taking cotton buying decisions.

We are experiencing an unprecedented slow down in yarn demand. Although we have a diverse product range, yet we feel that there is a slow down in demand for all our product ranges. In Pakistan the Textile Industry is confronting numerous issues, from cost pushups, labour productivity and acute power shortage. The major problems in shape of frequent power breakdowns and load shedding has had a compounding effect on the productivity of the industry specially the medium and small sized companies. The current law and order situation in Pakistan has restricted foreign customers with the result that the buyers for value added textiles are not coming to Pakistan.

Polyester Fiber is one of our major raw materials. During the current year there was a sudden rise in oil prices which went to over \$ 140 per barrel. Although we have always been importing polyester fibre, it has become risky due to the dollar fluctuation as well as high petro-chemical prices. However, we will continue importing polyester fiber from different sources.

At the closure of last financial year, Pakistan experienced the largest ever trade deficit and this year this trend continues. This has put tremendous pressure on Rupee which has been constantly devaluing (27% to 28%) since January this year. Because of the political uncertainty, trade deficit, Rupee/Dollar parity compounded with international recession, the industry is slowing in demand. These cost push-ups at a very difficult time with low demand has put us in difficulty.

BALANCING & MODERNIZATION

The company has installed the following Plant & Machinery and ERP during the year under review.

- 🏠 Premier Mill I ERP in the Quality Control Department.
- 🏠 7 Chinese (Taihang) Simplexes FA-425A.
- 🏠 2 Rieter RSB D40 Draw Frames
- 🏠 3 Chinese EJM-168 Ring Frames (480 Spindles Each).
- 🏠 4 Murata 21C+ Process Coner.

COST PUSH-UPS:

- 🏠 During the year under review the financial charges increased to Rs.56.479 million from Rs.55.670 million as compared to corresponding period of last i.e. increase of 1.45%. Compared to year under review financial charges would be significantly enhanced due to increase in KIBOR rates. The company discontinued to finance its import and export business through short term borrowings under FE, considering the devaluation of rupee day by day. The present markup rate is around 15% as against 7.25% in the period of the year under review.

- 🏠 The increase in minimum wage rate of unskilled workers w.e.f. 1st July 2007 from Rs.4,000/- to Rs.4,600/- (i.e. 15%) and increase in salary of employees (10% to 15%) has cost the company Rs.10 million per annum on an aggregate.

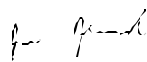
Further increase in minimum wages for unskilled workers and salaries of employees w.e.f. 1st July 2008 from Rs.4,600/- to Rs.6,000/- per month (i.e. 30%) and 10% to 15% respectively and resultant effects in rate and basis of calculation of employees old age benefit and social security would cost the company approx. Rs.17 million per annum aggregate during next year.

- 🏠 During the year under review, the packing materials cost increased to Rs.16.951 million from Rs.15.303 million as compared to the last year i.e. increase of 11%. Cost of Stores, Spares and packing material consumption would be further enhanced by around 35% in the following years, considering inflation factors viz. the trend of price increase of petroleum products, transport cost, increase in wages & salaries, gas & power charges and devaluation of Pak Rupee day by day.

Conclusion

The year ahead looks as one of the most difficult one. The recent growth in GDP that we have witnessed has been consumer driven not production driven. We have been living beyond our means which has put the economy under tremendous pressure. Whereas we will continue our efforts, we need to recognize that the process is difficult. The overall trading conditions continue to be difficult and margins will continue to be under pressure but your company management promises to put in all efforts to tackle these problems.

Your Company continues to occupy a place of respect amongst the Textile Industry world over. It is associated with most of our valued customers. The Directors commend the continued commitment and dedication of employees at all levels. The Directors also wish to thank our bankers, insurers, brokers and agents for putting their share in company's overall performance. Your Directors look forward to receiving similar support.


ANWAR AHMED TATA
Chairman

Karachi

Dated: September 29, 2008

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors have pleasure in presenting before you the 39th Annual Report together with the Audited Accounts for the year ended June 30, 2008.

FINANCIAL RESULTS

The Company made a pre tax Loss of Rs.33,165,799/- after charging costs, expenses and depreciation for the year.

	(Rupees)
Pre Tax Loss for the Year	(33,165,799)
Taxation	<u>2,014,542</u>
Loss after Taxation	(31,151,257)
Accumulated Profit Brought Forward	151,802,131
Payment of Dividend	<u>(1,250,000)</u>
	119,400,874
Transfer from Surplus on Revaluation of property, plant and equipment	11,600,527
Share of unrealized loss in value of securities available for sale	(190,353)
Share of Associate's transfer from Surplus on Revaluation of property, plant and equipment	<u>745,958</u>
Accumulated Profit Carried Forward	<u><u>131,557,006</u></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

Since the results for the year under review are not encouraging, therefore your directors recommended to pass on the dividend for the year.

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	4
Mr. Adeel Shahid Anwar Tata	4
Mr. Aijaz Ahmed Tariq	2
Mr. Kausar Ejaz	2
Mr. Javed Ahmed	4
Mr. Farooq Advani	4

(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, 2008 is annexed. This statement is prepared in accordance with the Code of Corporate Governance.
- k. During the year under review the trading in shares of the Company by the Directors, CEO, and their spouses are as follows:

	Opening Balance As on 01-07-2007	Purchase	Sales	Closing Balance As on 30-06-2008
Mr. Anwar Ahmed Tata	266,050	8,150	-	274,200

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, 2009.

ON BEHALF OF THE BOARD OF DIRECTORS



SHAHID ANWAR TATA
CHIEF EXECUTIVE

Karachi:

Dated: September 29, 2008

KEY OPERATING AND FINANCIAL RESULTS FROM 2003 TO 2008

	----- Rupees in thousand -----					
	2008	2007	2006	2005 (9 Months) (Restated)	2004	2003
OPERATING DATA						
Sales	1,024,957	1,007,599	936,302	712,321	816,931	643,904
Cost of Goods Sold	868,055	875,377	787,701	646,754	749,251	542,186
Gross Profit	156,902	132,222	148,601	65,567	67,680	101,718
(Loss)/Profit Before Taxation	(33,166)	18,344	28,404	7,067	17,335	49,284
(Loss)/Profit After Taxation	(31,151)	18,050	22,935	2,883	4,798	31,313
Financial Data						
Fixed Assets at Cost	610,924	495,998	483,130	473,473	345,242	309,535
Long Term Investment	18,162	17,514	18,630	16,527	1,998	1,998
Current Assets	637,568	504,864	328,442	428,941	438,594	216,980
Current Liabilities	597,953	488,683	300,168	387,994	392,412	207,678
Key Ratio						
Gross Margin (%)	15.31	13.12	15.87	9.20	8.28	15.80
Net (Loss)/Profit (%)	(3.04)	1.79	2.45	0.40	0.59	4.86
Current Ratio	1.07	1.03	1.09	1.11	1.12	1.04
Earning Per Share (Rupees)	(62.30)	36.10	45.87	5.77	9.60	62.63
Cash Dividend (%)	-	25.00	25.00	25.00	25.00	25.00
Statistics						
Number of Spindle	19,200	19,200	19,200	19,200	19,200	19,200
Production into 20/s Count (in "000" Kgs)	7,138	7,528	7,362	5,510	7,267	7,108

**Patterns of Holding of Shares Held by the Shareholders
As at June 30, 2008**

NO. OF SHAREHOLDERS	SHARE-HOLDING		TOTAL SHARES HELD
	FROM	TO	
346	1	100	19,550
43	101	500	11,400
6	501	1000	4,900
14	1001	5000	30,900
2	5001	10000	13,900
2	20001	25000	44,000
1	45001	50000	47,600
1	50001	55000	53,550
1	270001	275000	274,200
<u>416</u>			<u>500,000</u>

**CATEGORIES OF SHAREHOLDERS
As at June 30, 2008**

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARE HOLDERS	SHARES HELD	PERCENTAGE
Investment Companies	2	150	0.03
Banks, Development Finance Institutions, Insurance & Modarbas	1	100	0.02
Joint Stock Companies	7	14,200	2.84
Directors, CEO, their Spouses and Minor Children	9	366,450	73.29
Individuals	397	119,100	23.82
	<u>416</u>	<u>500,000</u>	<u>100.00</u>

Detail of Categories of Shareholders As at June 30, 2008

	Number of Shareholders	Shares Held
INVESTMENT COMPANIES		
Investment Corporation of Pakistan	2	150
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, INSURANCE & MODARBAS		
The United Ins. Co. of Pakistan Limited	1	100
JOINT STOCK COMPANIES		
Adeel & Nadeem Securities (Pvt) Ltd.		50
M.R.A. Securities (Pvt.) Limited		8,000
Darson Securities (Pvt.) Ltd.		50
Fateh Textile Mills Ltd.		50
Javed Omer Vohra & Company Ltd.		5,900
Time Securities (Pvt.) Limited		100
Y.S. Securities & Service (Pvt) Ltd.		50
	7	<u>14,200</u>
DIRECTORS, CEO, THEIR SPOUSES & MINOR CHILDREN		
Mr. Anwar Ahmed Tata (Chairman)		274,200
Mr. Shahid Anwar Tata (Chief Executive)		22,500
Mr. Kausar Ejaz (Director)		2,500
Mr. Javed Ahmed (Director)		2,500
Mr. Adeel Shahid Anwar Tata (Director)		2,500
Mr. Ejaz Ahmed Tariq (Director)		2,500
Mr. Farooq Advani (Director)		2,500
Mrs. Parveen Anwar (W/o of Mr. Anwar Ahmed Tata)		53,550
Mrs. Saiqa Shahid (W/o of Mr. Shahid Anwar Tata)		3,700
	9	<u>366,450</u>
INDIVIDUALS		
	397	119,100
Grand Total	<u>416</u>	<u>500,000</u>

Shareholders Holding 10% or More Voting Interest in the Company As at June 30, 2008

	Shares Held	Percentage
DIRECTORS, CEO, THEIR SPOUSES AND MINOR CHILDREN		
Mr. Anwar Ahmed Tata (Chairman)	274,200	54.84
Mrs. Parveen Anwar (W/o of Mr. Anwar Ahmed Tata)	53,550	10.71

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE YEAR ENDED 30TH JUNE 2008

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. 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. There has been no casual vacancy occurred during the year under review.
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 Chief Executive 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 an orientation course for its directors during the year 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 the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by Chief Executive and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive 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 and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function 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 programmed 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



**SHAHID ANWAR TATA
CHIEF EXECUTIVE**

Karachi

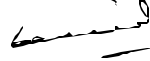
Dated: September 29, 2008

Notice of Annual General Meeting

Notice is hereby given that the **39th Annual General Meeting** of the Shareholders of **Island Textile Mills Limited** will be held on **Friday the October 31, 2008** at **10:30 A.M.** at 5th Floor Textile Plaza M.A. Jinnah Road Karachi, to transact the following business: -

1. To confirm the minutes of the 38th Annual General Meeting held on October 17, 2007.
2. To receive, consider and adopt the report of the Directors and Auditors and Audited Accounts of the Company for the year ended June 30, 2008.
3. To appoint Auditors for the year 2008-09 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 transact any other ordinary business or businesses with the permission of the Chair.

By order of the Board of Directors



Farooq Advani
Company Secretary

Karachi:

Dated: October 9, 2008

Notes:

1. The Share Transfer Books of the Company will remain closed from October 22, 2008 to October 31, 2008 (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 CNIC or Passport to prove his/her identity and in case of Proxy must enclose additionally an attested copy of his/her CNIC or Passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. 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

UAN: +92 (0) 21 111-55-2626
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 **ISLAND TEXTILE MILLS LIMITED** (the Company) to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such 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, 2008.



M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi

Date: September 29 , 2008

A member firm of
Deloitte Touche Tohmatsu

Deloitte.

M. Yousuf Adil Saleem & Co
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Web: www.deloitte.com

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ISLAND TEXTILE MILLS LIMITED (the Company) as at June 30, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and 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, 2008 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.


A member firm of
M. Yousuf Adil Saleem & Co. Deloitte Touche Tohmatsu
Chartered Accountants

Karachi

Dated: September 29, 2008

BALANCE SHEET

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
SHARE CAPITAL AND RESERVES			
Authorised 1,000,000 Ordinary shares of Rs.10 each		<u>10,000,000</u>	<u>10,000,000</u>
Issued, subscribed and paid-up	3	5,000,000	5,000,000
Unappropriated profits		<u>131,557,006</u>	<u>151,802,131</u>
		136,557,006	156,802,131
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
	4	213,296,473	64,468,108
NON-CURRENT LIABILITIES			
Long-term financing	5	203,766,687	96,092,092
Liabilities against assets subject to finance lease	6	-	267,044
Deferred liabilities	7	98,972,105	61,524,067
CURRENT LIABILITIES			
Trade and other payables	8	43,618,390	37,021,333
Accrued interest / mark-up on loans	9	12,368,522	10,287,327
Short-term borrowings	10	452,260,727	345,755,884
Current portion of			
-long-term financing	5	32,071,640	43,397,178
-liabilities against assets subject to finance lease	6	74,579	406,219
Taxation - income tax		<u>57,559,168</u>	<u>51,815,423</u>
		597,953,026	488,683,364
CONTINGENCIES AND COMMITMENTS			
	11	<u>1,250,545,297</u>	<u>867,836,806</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.

AS AT JUNE 30, 2008

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	12	594,735,752	345,378,064
Long-term investments	13	18,161,620	17,514,426
Long-term deposits		80,039	80,039
CURRENT ASSETS			
Stores, spares and loose tools	14	8,231,687	9,648,660
Stock-in-trade	15	327,042,263	242,201,861
Trade debts	16	164,083,340	164,195,699
Loans and advances	17	78,728,195	59,124,204
Trade deposits and short term prepayments	18	622,076	74,107
Other receivables	19	40,959,303	778,803
Other financial assets	20	4,239,992	3,096,121
Sales tax refundable		2,684,837	2,641,556
Cash and bank balances	21	10,976,193	23,103,266
		637,567,886	504,864,277
		1,250,545,297	867,836,806



SHAHID ANWAR TATA
CHIEF EXECUTIVE



ANWAR AHMED TATA
CHAIRMAN/DIRECTOR

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

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
Sales	22	1,024,956,579	1,007,599,005
Cost of goods sold	23	(868,054,918)	(875,376,878)
Gross profit		<u>156,901,661</u>	<u>132,222,127</u>
Distribution cost	24	(66,343,966)	(41,693,546)
Administrative expenses	25	(31,455,054)	(23,244,585)
Other operating expenses	26	(45,381,132)	(1,691,390)
Other operating income	27	9,195,549	10,346,571
Finance cost	28	(56,479,011)	(55,670,333)
Share of profit / (loss) from associate - net of tax	13	396,154	(1,925,246)
		<u>(190,067,460)</u>	<u>(113,878,529)</u>
(Loss) / profit before taxation		(33,165,799)	18,343,598
Taxation	29	2,014,542	(293,184)
(Loss) / profit for the year		<u>(31,151,257)</u>	<u>18,050,414</u>
Earnings per share - basic and diluted	30	<u>(62.30)</u>	<u>36.10</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.



**SHAHID ANWAR TATA
CHIEF EXECUTIVE**



**ANWAR AHMED TATA
CHAIRMAN/DIRECTOR**

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2008

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
A CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(33,165,799)	18,343,598
Adjustments for :			
Depreciation	12.2	25,595,638	27,166,862
Provision for staff gratuity		4,121,223	3,851,460
Provision for compensated absences		66,286	10,474
Finance cost	28	56,479,011	55,670,333
Loss / (gain) on sale of property, plant and equipment	26 & 27	6,362,529	(770,805)
Loss from fire on property, plant and equipment		14,903,338	-
Share of (Profit)/Loss from associate	13	(396,154)	1,925,246
Operating cash flow before working capital changes		73,966,072	106,197,168
(Increase) / decrease in current assets			
Stores, spares and loose tools		1,416,973	(1,062,931)
Stock-in-trade		(84,840,402)	(107,702,468)
Trade debts		112,359	(52,517,377)
Loans and advances		(10,912,759)	(3,446,019)
Trade deposits and short-term prepayments		(547,969)	(950,372)
Other receivables		(40,180,500)	57,952
Sales tax refundable		(43,281)	2,527,874
Other financial assets		(1,143,871)	(6,321)
Increase in current liabilities			
Trade and other payables		6,579,118	2,284,288
Cash used in operations		(55,594,260)	(54,618,206)
Finance cost paid		(54,397,816)	(58,260,620)
Income taxes paid		(8,691,232)	(6,294,869)
Staff gratuity paid		(2,609,734)	(1,969,059)
Net cash used in operating activities		(121,293,042)	(121,142,754)

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		366,300	366,300
Purchase of property, plant and equipment		(96,584,485)	(11,625,547)
Proceeds on disposal of property, plant and equipment		4,361,000	2,186,750
Long-term deposits		-	10,000
Net cash used in investing activities		<u>(91,857,185)</u>	<u>(9,062,497)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term financing		175,067,750	5,798,000
Repayment of long-term-financing		(78,718,694)	(45,278,335)
Short term-borrowings - import / export finance		11,201,964	228,224,142
Repayment of finance lease		(598,684)	(1,533,039)
Dividend paid		(1,232,061)	(1,196,451)
Net cash from financing activities		<u>105,720,275</u>	<u>186,014,317</u>
Net (decrease) / increase in cash and cash equivalents		(107,429,952)	55,809,066
Cash and cash equivalents as at July 01		(31,873,540)	(87,682,606)
Cash and cash equivalents as at June 30	32	<u>(139,303,492)</u>	<u>(31,873,540)</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.



SHAHID ANWAR TATA
CHIEF EXECUTIVE



ANWAR AHMED TATA
CHAIRMAN/DIRECTOR

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

	Share Capital	Revenue reserve Unappropriated profit	Total
Rupees.....		
Balance as at July 01, 2006	5,000,000	129,514,011	134,514,011
Changes in equity for the year 2007			
Transfer from surplus on revaluation of property, plant and equipment on account of :			
-incremental depreciation - net of deferred tax	-	4,370,405	4,370,405
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	-	822,283	822,283
Share of unrealised gain in value of securities available-for-sale	-	295,018	295,018
Net income recognised directly in equity	-	5,487,706	5,487,706
Profit for the year	-	18,050,414	18,050,414
Total recognised income and expense for the year	-	23,538,120	23,538,120
Final cash dividend for the year ended June 30, 2006 at Rs. 2.5 per ordinary share	-	(1,250,000)	(1,250,000)
Balance as at June 30, 2007	5,000,000	151,802,131	156,802,131
Changes in equity for the year 2008			
Transfer from surplus on revaluation of property, plant and equipment on account of :			
-incremental depreciation - net of deferred tax	-	2,114,922	2,114,922
-disposal - net of deferred tax	-	9,485,605	9,485,605
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	-	745,958	745,958
Share of unrealised loss in value of securities available for sale	-	(190,353)	(190,353)
Net income recognised directly in equity	-	12,156,132	12,156,132
Loss for the year	-	(31,151,257)	(31,151,257)
Total recognised income and expense for the year	-	(18,995,125)	(18,995,125)
Final cash dividend for the year ended June 30, 2007 at Rs. 2.5 per ordinary share	-	(1,250,000)	(1,250,000)
Balance as at June 30, 2008	5,000,000	131,557,006	136,557,006

The annexed notes from 1 to 39 form an integral part of these financial statements.



**SHAHID ANWAR TATA
CHIEF EXECUTIVE**



**ANWAR AHMED TATA
CHAIRMAN/DIRECTOR**

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

1. GENERAL INFORMATION

- 1.1** Island Textile Mills Limited (the Company) was incorporated in Pakistan on May 20, 1970 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 Kotri Industrial Estate 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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under Companies Ordinance, 1984 shall prevail.

2.2 New accounting standards and IFRS interpretations that are not yet effective

2.2.1 Standards:

The following International Financial Reporting Standards (IFRS) as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

IFRS 7 - Financial Instruments: Disclosures **April 28, 2008**

IFRS 7 requires extensive disclosures about the significance of financial instruments for the Company's financial position and performance and quantitative and qualitative disclosures on the nature and extent of risks. These requirements incorporate many of the requirements previously prescribed in IAS 32 - Financial Instruments : Presentation. The Company plans to apply this standard from the financial year beginning July 01, 2008 and its initial application is expected to have extensive disclosures in the Company's financial statements.

IFRS 8 - Operating Segments **January 01, 2009**

IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard will have no material impact on the financial statements in the year of application.

IAS 29 - Financial Reporting in Hyperinflationary Economies **April 28, 2008**

IAS-29 form part of the financial reporting framework applicable in Pakistan with effect from the accounting periods beginning on or after the date of relevant notification, however the standard would not have any implications in Pakistan in view of the fact that the economic environment in Pakistan is not considered hyperinflationary.

2.2.2 Interpretations:

The following interpretations have been approved by International Financial Reporting Interpretations Committee and are only effective for accounting periods, beginning on or after the date mentioned against each of them:

IFRIC 12 - Service Concession Agreements

January 01, 2008

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Since the Company is not involved in public sector services, the implementation of this interpretation is unlikely to affect its financial statements.

IFRIC 13 - Customer Loyalty Programs

July 01, 2008

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. The Company is not offering any such incentive to its customers.

**IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset,
Minimum Funding Requirements and their Interaction**

January 01, 2008

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of this Interpretation will have no material impact on the financial statements in the year of application.

IFRIC 15 - Agreements for the Construction of Real Estate

January 01, 2009

IFRIC 15 will standardise accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan', i.e. before construction is complete. It provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised. Since the Company is not involved in Construction of Real Estate, the implementation of this interpretation is unlikely to affect its financial statements.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation October 01, 2008

IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. Since the Company has no investment in a foreign operation, the implementation of this interpretation is unlikely to affect its financial statements.

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 staff 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.

Rentals payable under operating leases are charged to profit and loss account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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, 2008 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 greater of the present value of the Company's obligation is amortised over the average expected remaining working lives of the employees.

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

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 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.

During the year the Company has changed its accounting estimate for charging depreciation. Previously depreciation was charged on additions and disposals on the basis of whole year, while no depreciation was charged on deletion during the year. Whereas, the capitalization of entire or part of project cost was depreciated proportionately from the date of capitalization. From current year depreciation on all additions in fixed assets is charged from the month in which the asset is available for use and on disposals upto the month of disposal.

Had there been no change in accounting estimate the related impact on depreciation expense would be Rs. 4,348,831.

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 12.

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 to the specific assets incurred during installation and construction period are carried under capital work-in-progress. Expenditures include borrowing costs as referred to in note 2.5. These are transferred to specific assets as and when assets are ready for their intended use.

2.10 Investments

2.10.1 Available-for-sale investments

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available-for-sale. These investments are initially recognised at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognised directly in the equity under fair value reserve until sold or otherwise disposed off or determined to be impaired at which time, the cumulative gain or loss previously recognised in equity is included in profit and loss account 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 plus transaction cost 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, determined on moving average cost less allowance for obsolete and slow moving items. Items in transit are valued at invoice values plus other charges incurred thereon.

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

2.16 Foreign currencies

Transactions in currencies other than Pakistani Rupees are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Gains and losses arising on retranslation are included in profit or loss for the period.

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 of financial assets and financial liabilities

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 assets 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 recognized as income.

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

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

- Sales are recorded on dispatch of goods or on segregation of goods for delivery against confirmed customers' orders where risks and rewards are transferred to a customer.
- Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate.
- Dividend income from investments is recognised when the shareholders' rights to receive payment have been established

2.21 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, highly liquid short-term investments that are convertible to known amount of cash and are subject to insignificant risk of change in value, and short-term running finance.

2.22 Trade and other payables

Liabilities for trade and other amounts payable are measured 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 financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Assumptions and estimates used in the area of property plant and equipment (refer note 12) are significant to the financial statements and it involves management estimates.

Estimates and judgments, if any, are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3 ISSUED, SUBSCRIBED AND PAID-UP

June 30, 2008	June 30, 2007		June 30, 2008	June 30, 2007
Number of shares			Rupees	Rupees
500,000	500,000	Ordinary shares of Rs. 10 each fully paid in cash	5,000,000	5,000,000
<u>500,000</u>	<u>500,000</u>		<u>5,000,000</u>	<u>5,000,000</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 The Company has no reserved shares for issuance under options and sales contracts

4. 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 1995, 2003 and 2008 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.

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
Surplus on revaluation of property, plant and equipment as at July 01		85,466,687	91,392,660
Transferred to unappropriated profit on account of			
-incremental depreciation - net of Deferred tax		(2,114,922)	(4,370,405)
-disposal - net of deferred tax		(9,485,605)	-
Related deferred tax liability		(4,129,001)	(1,555,568)
Effect of valuation of property, plant and equipment carried out at year end		203,995,709	-
		188,266,181	(5,925,973)
Surplus on revaluation of property, plant and equipment at year end		<u>273,732,868</u>	<u>85,466,687</u>
Related deferred tax liability on:			
Revaluation as at July 01		20,998,579	30,072,200
Adjustment due to income subject to FTR	4.1	-	(7,518,049)
Transferred to profit and loss account on account of			
-incremental depreciation - net of Deferred tax		(2,492,544)	(1,555,572)
-disposal - net of deferred tax		(1,636,453)	-
Effect of valuation of property, plant and equipment carried out at year end		43,566,813	-
		60,436,395	20,998,579
		<u>213,296,473</u>	<u>64,468,108</u>

- 4.1 This represents the reversal of opening deferred tax liability balance due to the revision of deferred tax rate by 8.75% in order to incorporate the effect of export sales, which is fall in Final Tax Regime (FTR).

		June 30, 2008	June 30, 2007
		Rupees	Rupees
5.	LONG-TERM FINANCING		
	From banking companies-secured		
	Term finances	5.1 176,445,800	93,343,000
	Vehicle loans	5.2 9,392,527	6,146,270
	From related parties-unsecured		
	Associated company	5.3 50,000,000	40,000,000
		<u>235,838,327</u>	<u>139,489,270</u>
	Less: Current portion:		
	Term finances	(29,697,200)	(36,897,200)
	Vehicle loans	(2,374,440)	(1,499,978)
	Associated company	-	(5,000,000)
		<u>(32,071,640)</u>	<u>(43,397,178)</u>
		<u><u>203,766,687</u></u>	<u><u>96,092,092</u></u>

- 5.1** The loans are secured against first equitable mortgaged charge over fixed assets of the Company including land, building, plant and machinery. The loans carry mark-up at 6 months average KIBOR + 1.5% (2007 : KIBOR + 1.5%) per annum and is repayable in ten equal semi-annual installments commencing between March 2003 to November 2010.
- 5.2** These loans are secured against vehicles acquired from such loans and guarantee of the Company. The loans carry mark-up at 13% (2007: 13%) per annum and is repayable in 60 equal monthly installments commencing between January 2006 to May 2008.
- 5.3** The loan is obtained from a related party and it carries mark-up at a rate of 6 months average KIBOR+1.5% (2007: 3 months average KIBOR+1.5%) per annum and is repayable in 6 equal semi-annual installments commencing between April 2011 to May 2011.

6. 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 :

	2008		2007	
	Minimum lease paymentsRupees.....	Present Value	Minimum lease paymentsRupees.....	Present Value
Within one year	78,291	74,579	458,270	406,219
After one year but not more than five years	-	-	279,972	267,044
Total minimum lease payments	<u>78,291</u>	<u>74,579</u>	<u>738,242</u>	<u>673,263</u>
Less : Amount representing finance charges	(3,712)	-	(64,979)	-
Present value of minimum lease payments	<u>74,579</u>	<u>74,579</u>	<u>673,263</u>	<u>673,263</u>
Less : Current portion	(74,579)	(74,579)	(406,219)	(406,219)
	<u>-</u>	<u>-</u>	<u>267,044</u>	<u>-</u>

- 6.1** These represent finance leases entered into with leasing companies for plant and machinery and vehicles. Rate of finance charge is 11.8% (2007: 9.83% to 11.48%) per annum are used as discounting factors. The lease terms are of 5 years.
- 6.2** The Company intends to exercise the option to purchase the leased assets upon completion of the lease period.
- 6.3** Liabilities are secured against personal guarantees of sponsor directors, promissory notes and security deposits.

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
7. DEFERRED LIABILITIES			
Staff gratuity	7.1	10,832,750	9,321,261
Compensated absences		878,598	812,312
Deferred taxation	7.2	87,260,757	51,390,494
		<u>98,972,105</u>	<u>61,524,067</u>
7.1 Staff gratuity			
Workmen	7.1.1	2,125,335	1,976,476
Non-workmen	7.1.2	8,707,415	7,344,785
		<u>10,832,750</u>	<u>9,321,261</u>
7.1.1 Workmen - Defined benefit plan			
(a) Movement in liability			
As at July 01		1,976,476	1,737,812
Charge for the year		1,942,569	1,694,927
Paid during the year		(1,793,710)	(1,456,263)
As at June 30		<u>2,125,335</u>	<u>1,976,476</u>
(b) Reconciliation			
Present value of defined benefit obligation		3,923,279	3,096,408
Unrecognised actuarial loss		(1,797,944)	(1,119,932)
		<u>2,125,335</u>	<u>1,976,476</u>
(c) Charge for the year			
Current service cost		1,575,050	1,400,963
Interest cost		309,641	245,891
Actuarial loss recognised		57,878	48,073
		<u>1,942,569</u>	<u>1,694,927</u>
(d) Changes in the present value of the defined benefit obligation			
Opening balance		3,096,408	2,732,121
Current service cost		1,575,050	1,400,963
Interest cost		309,641	245,891
Actuarial losses		735,890	173,696
Benefits paid		(1,793,710)	(1,456,263)
Closing defined benefit obligation		<u>3,923,279</u>	<u>3,096,408</u>
(e) The principal assumptions used in the valuation of gratuity are as follows:			
Discount rate		12.00%	10.00%
Expected rate of salary increase		11.50%	9.50%

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

	2008	2007	2006	2005	2004
	(-----Rupees-----)				
Present value of the defined benefit obligation	2,125,335	1,976,476	1,737,812	1,609,992	1,446,871
Fair value of plant assets	-	-	-	-	-
Deficit	<u>2,125,335</u>	<u>1,976,476</u>	<u>1,737,812</u>	<u>1,609,992</u>	<u>1,446,871</u>
Experience adjustments on obligation and plan assets					
Present value of obligation	2,125,335	1,976,476	-	-	-
Fair value of plan assets	-	-	-	-	-
Deficit	<u>2,125,335</u>	<u>1,976,476</u>	-	-	-
Actuarial (loss) on obligation	(735,890)	(173,696)	-	-	-
Actuarial (gain)/loss on Assets	-	-	-	-	-

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
7.1.2 Non-workmen - Defined contribution plan			
Opening balance		7,344,785	5,701,048
Charge for the year		2,178,654	2,156,533
Paid during the year		(816,024)	(512,796)
Closing balance		<u>8,707,415</u>	<u>7,344,785</u>

7.2 Deferred taxation

This comprises of the following :

Deferred tax liabilities on taxable temporary differences arising in respect of :

Property, plant and equipment - owned assets	28,051,596	32,062,924
Investment in associate	1,616,362	775,822
Surplus on revaluation of property, plant and equipment	<u>60,436,395</u>	<u>20,998,579</u>
	90,104,353	53,837,325

Deferred tax assets on deductible temporary differences arising in respect of :

Staff gratuity	(2,843,596)	(2,446,831)
	<u>87,260,757</u>	<u>51,390,494</u>

8. TRADE AND OTHER PAYABLES

Creditors		6,901,633	5,013,593
Accrued liabilities	8.1	33,288,955	28,022,248
Withholding income tax		159,532	131,054
Workers' Profit Participation Fund	8.2	-	1,063,422
Workers' Welfare Fund		2,622,352	2,238,037
Unclaimed dividend		570,918	552,979
Other liabilities		75,000	-
		<u>43,618,390</u>	<u>37,021,333</u>

8.1 This includes Rs. 7,318,636 (2007: Rs. 6,011,426) payable to an associated undertaking in respect of power charges.

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
8.2 Worker's Profit Participation Fund			
Opening balance		1,063,422	1,464,629
Allocation during the year		-	1,063,422
Interest on funds utilized in the Company's business		74,840	79,000
		<u>1,138,262</u>	<u>2,607,051</u>
Amount paid to the fund		(1,138,262)	(1,543,629)
Closing balance		<u>-</u>	<u>1,063,422</u>
9. ACCRUED INTEREST / MARK-UP ON LOANS			
Long-term financing			
- from banking companies		4,332,956	3,200,151
- associated company		897,911	1,184,745
Short-term borrowings		7,137,655	5,902,431
		<u>12,368,522</u>	<u>10,287,327</u>
10. SHORT-TERM BORROWING			
From banking companies- secured			
Running finances	10.1	150,279,685	54,976,806
Finance against import / export	10.2	213,296,113	290,779,078
Trust receipts	10.3	88,684,929	-
	10.4	<u>452,260,727</u>	<u>345,755,884</u>
10.1	These facilities are secured against hypothecation charge over stock and receivables and personal guarantee of sponsor directors. These carry mark-up at the rate 3 to 6 months KIBOR plus 0.9% to 1.5% (2007: 3 months KIBOR plus 1%) per annum.		
10.2	These facilities carry mark-up at the rate ranging from LIBOR / KIBOR plus 1% to 3% (2007: LIBOR plus 0.75% to 1.5 %) per annum. These arrangements are secured against pledge of stock, foreign currency deposits, lien on export documents and letter of credits, pari passu charge over current assets and personal guarantee of sponsor directors.		
10.3	This facility is secured against pledge of stocks and carries mark-up at the rate 6 months KIBOR plus 1% per annum.		
10.4	These facilities are available from various commercial banks amounting to Rs. 770 million (2007: Rs. 385 million) from which the aggregate unavailed short-term borrowings facilities available amounting to Rs. 318 million (2007: Rs. 40 million).		
		June 2008 Rupees	June 2007 Rupees
11. CONTINGENCIES AND COMMITMENTS			
Contingencies			
Labour and workmen compensation cases in court of law		897,136	30,000
Commitments			
Letters of credit		296,975,121	172,044,612
Bank guarantees		23,778,064	18,678,064
Export bills discounted		99,477,438	82,305,547

12. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
	Rupees	Rupees
Operating assets	564,042,776	343,670,606
Capital work in progress	10,862,374	7,077,568
	574,905,152	350,748,174

12.1 Operating assets

Particulars	Cost/Revaluation as at June 30, 2008	Revaluation at June 30, 2008	Adjustment of accumulated depreciation	Coef. revaluation at June 30, 2008	Accumulated depreciation July 01, 2007	Depreciation for the year / transfers	Disposal	Adjustment of accumulated depreciation	Accumulated depreciation at June 30, 2008	Written down value at June 30, 2008	Note
(Rupees)											
Company owned:											
Land - leasehold	6,528,100	-	-	44,555,000	-	-	-	-	-	44,555,000	
Buildings on leasehold and M/Is	34,122,357	(7,242,671)	(18,612,312)	108,157,115	17,183,311	3,053,053	(1,008,831)	(8,212,252)	-	98,877,885	7
Other	26,136,457	-	(5,285,742)	39,252,232	4,184,547	1,131,505	-	(5,285,742)	-	39,252,232	5
Office furniture	79,335	-	-	79,335	407,344	55,307	-	-	44,246	350,117	10
Plant and machinery	248,338,378	(25,147,572)	(13,749,401)	366,447,519	1,041,6318	17,791,803	(8,167,752)	(115,740,471)	-	366,447,519	7
Lifts and elevators	26,924,006	(1,712,576)	-	28,341,200	1,392,111	823,937	(87,1159)	-	11,793,209	7,666,111	10
Mills and equipment	52,37,442	(793,140)	-	5,055,700	2,492,009	258,259	(121,002)	-	2,581,186	2,474,314	10
Constructional fixtures	3,32,628	(79,502)	-	3,534,652	2,633,747	298,097	(673,457)	-	2,178,387	1,467,275	30
Office equipment	2,232,885	(391,100)	-	1,991,935	1,730,890	7,122	(21,309)	-	1,326,111	651,617	10
Office furniture	897,730	(110,760)	-	7,620	5,253	3,116	(9,1200)	-	32,903	258,027	10
Office furniture	783,577	-	-	7,83,577	7,84,177	7,043	-	-	715,072	71,805	10
Vehicles	12,451,790	(1,639,145)	-	17,067,361	4,292,557	2,050,773	(678,836)	-	3,644,456	1,443,103	20
	72,672,775	(37,831,592)	(20,395,709)	607,956,346	15,106,752	25,395,663	(22,553,945)	(17,638,033)	2,187,300	382,612,355	
Assets held under finance lease:											
Plant and machinery	2,737,506	-	-	2,739,326	971,507	38,482	-	-	1,063,987	1,775,319	7
Vehicles	2,051,000	(1,159,000)	-	838,000	1,252,158	1,07,498	(78,839)	-	63,977	258,693	20
	4,788,506	(1,159,000)	-	3,127,326	2,223,665	145,980	(78,839)	-	699,964	1,431,512	
	77,461,281	(38,990,592)	(20,395,709)	611,083,672	17,330,417	25,541,643	(23,632,884)	(17,638,033)	2,887,264	381,122,787	
June 30, 2008											

12.4 Disposal of property, plant and equipment - by negotiations/Claims

Particulars and mode of disposal	Cost	Accumulated depreciation	Written down value	Sale proceeds	Name and Address
-----Rupees-----					
Vehicles	512,650	136,707	375,943	504,000	EFU General Insurance Ltd. Karachi Branch, West Wharf, Karachi.
Vehicles	555,000	437,517	117,483	250,000	Shahzar Shakeel B-34 BLOCK 11 F.B.AREA, KARACHI
Vehicles	503,870	41,989	461,881	497,000	EFU General Insurance Ltd. Karachi Branch, West Wharf, Karachi.
Plant and machinery	1,020,000	115,668	904,332	510,000	Mazhar Abbas Chha Baluchanwala Kot Essa Shah, District Jhung
Plant and machinery	6,733,556	2,260,556	4,473,000	1,300,000	Lucky Cotton Mills (Pvt) Ltd 707, 7TH FLOOR, Business Center, Mumtaz Hussain Road, Off I.I. Chundrigar Road, Karachi.
Plant and machinery	3,366,778	1,171,333	2,195,445	650,000	Lucky Cotton Mills (Pvt) Ltd 707, 7TH FLOOR, Business Center, Mumtaz Hussain Road, Off I.I. Chundrigar Road, Karachi.
Plant and machinery	3,366,778	1,171,333	2,195,445	650,000	Abdullah Textile Mill (Pvt) Ltd. RC 1/1-A, NISHTAR/ BABA-E-URDU, ROAD, G.P.O. BOX 791, KARACHI.
Building	7,342,467	1,908,854	5,433,613	-	Destroy by Fire
Plant and machinery	10,660,400	3,448,863	7,211,537	-	Destroy by Fire
Vehicles	1,286,625	783,352	503,273	-	Destroy by Fire
Furniture and fixture	304,480	211,309	93,171	-	Destroy by Fire
Computers equipment	790,502	663,487	127,015	-	Destroy by Fire
Electric Installations	1,773,586	877,159	896,427	-	Destroy by Fire
Mills equipment	703,140	121,092	582,048	-	Destroy by Fire
Office equipment	110,760	54,506	56,254	-	Destroy by Fire
June 30, 2008	39,030,592	13,403,725	25,626,867	4,361,000	
June 30, 2007	3,524,738	2,108,793	1,415,945	2,186,750	

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
12.5 Capital work-in-progress			
Civil work under construction	12.5.1	8,163,090	60,707
Capital inventory items	12.5.2	2,529,884	1,646,551
Advance for vehicle	12.5.3	-	-
		<u>10,692,974</u>	<u>1,707,258</u>
12.5.1 Civil work under construction			
Opening balance		60,707	3,390,792
Addition during the year		8,102,383	486,931
Less: Transfer to property, plant and equipment		-	(3,817,016)
Closing balance		<u>8,163,090</u>	<u>60,707</u>
12.5.2 Capital inventory items			
Opening balance		1,646,551	2,579,627
Addition during the year		77,318,728	2,415,001
Less: Transfer to property, plant and equipment		(76,435,395)	(3,348,077)
Closing balance		<u>2,529,884</u>	<u>1,646,551</u>
12.5.3 Advance for vehicle			
Opening balance		-	504,000
Addition during the year		5,552,000	4,102,000
Less: Transfer to property, plant and equipment		(5,552,000)	(4,606,000)
Closing balance		<u>-</u>	<u>-</u>
13. LONG-TERM INVESTMENTS			
Investment in Salfi Textile Mills Limited - an associated undertaking			
Balance as at July 01		17,514,426	18,629,866
Share of incremental depreciation		828,842	865,561
Share of unrealised (loss) / gain in value of securities available for sale		(211,502)	310,545
Share of profit / (loss) of associate - net of tax		396,154	(1,925,246)
Dividend received		(366,300)	(366,300)
		647,194	(1,115,440)
Balance as at June 30	13.1	<u>18,161,620</u>	<u>17,514,426</u>
Number of shares held		366,300	366,300
Cost of investment (Rupees)		1,998,000	1,998,000
Ownership interest		<u>10.96%</u>	<u>10.96%</u>
13.1		The market value of investment Rs. 8,461,530 (2007: Rs. 8,608,050).	
13.2		Summarized financial highlights of Salfi Textile Mills Limited for the year ended June 30, 2008 as follows:	
Total assets		3,286,204,002	2,047,301,322
Total liabilities		2,121,696,894	1,320,286,286
Sales for the year		1,940,998,956	1,660,593,409
Profit / (loss) for the year		3,614,546	(17,566,114)
14. STORES, SPARES AND LOOSE TOOLS			
Stores		7,244,099	8,621,985
Spares		924,377	941,323
Loose tools		63,211	85,352
		<u>8,231,687</u>	<u>9,648,660</u>

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
15. STOCK-IN-TRADE			
Raw material		270,410,548	224,993,697
Work-in-process		11,144,217	8,983,676
Finished goods		44,498,721	7,788,259
Waste		988,777	436,229
		<u>327,042,263</u>	<u>242,201,861</u>
15.1	Finished goods of Rs. 53,135 (2007: Rs. 244,966) carried at net realizable value.		
16. TRADE DEBTS - CONSIDERED GOOD			
Export	16.1	12,105,872	16,121,111
Local		151,977,468	148,074,588
		<u>164,083,340</u>	<u>164,195,699</u>
16.1	These are secured against letter of credit in favour of the Company.		
17. LOANS AND ADVANCES			
Considered good			
Due from employees		2,181,731	1,298,773
Advances to creditors		1,076,486	335,147
Advance for expenses		-	86,440
Advance income tax		61,708,800	53,017,568
Advance against letter of credit		13,761,178	4,386,276
		<u>78,728,195</u>	<u>59,124,204</u>
18. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Bank guarantee margin deposits		-	3,867
Short-term prepayments and deposits		622,076	70,240
		<u>622,076</u>	<u>74,107</u>
19. OTHER RECEIVABLES			
Considered good			
Duty draw back		25,720	25,720
Insurance claim receivable	19.1	40,881,700	-
Others		51,883	753,083
		<u>40,959,303</u>	<u>778,803</u>
19.1	The amount represents insurance claim receivable from various insurance companies in respect of loss occurred on account of riot acts on December 27, 2007		
20. OTHER FINANCIAL ASSETS			
Investment - held to maturity	20.1	4,239,992	3,096,121
20.1	This represents investment made in term deposit receipts held for a period of 6 months with a markup rate of 6% per annum (2007: 3.00% to 3.75% per quarter).		

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
21. CASH AND BANK BALANCES			
Cash at bank			
On current accounts		5,767,725	18,958,386
On savings account	21.1	4,576,249	3,901,754
		10,343,974	22,860,140
Cash in hand		632,219	243,126
		10,976,193	23,103,266
21.1	This represents the amount held in savings accounts with the banks on which the mark up rate is ranging between 4% to 5% (2007: 4%) per annum.		
22. SALES - Net			
Local			
- Yam		536,020,740	667,504,120
- Waste		8,557,889	8,522,897
		544,578,629	676,027,017
Export			
- Yam		480,393,639	331,623,769
		1,024,972,268	1,007,650,786
Less: Discount		(15,689)	(51,781)
		1,024,956,579	1,007,599,005
23. COST OF GOODS SOLD			
Cost of goods manufactured	23.1	906,375,235	876,372,776
Finished goods			
Opening stock		8,224,488	7,210,190
Stock destroyed by fire		(1,057,307)	-
Purchases		-	18,400
Closing stock	23.2	(45,487,498)	(8,224,488)
		(38,320,317)	(995,898)
		868,054,918	875,376,878
23.1 Cost of goods manufactured			
Raw material consumed	23.1.1	706,599,851	682,395,173
Stores and spares consumed		14,783,591	17,037,816
Packing material consumed		16,951,530	15,303,634
Salaries, wages and benefits	23.1.2	67,354,250	62,921,242
Fuel and power		69,882,872	69,244,237
Water		538,456	607,268
Rent, rates and taxes		101,730	48,786
Insurance		3,989,399	2,355,037
Repairs and maintenance		141,525	385,860
Vehicles running and maintenance		744,690	555,946
Depreciation	12.2	25,298,023	26,785,120
Other overheads		2,149,859	1,506,194
		908,535,776	879,146,313
Work-in-process			
Opening stock		8,983,676	6,210,139
Closing stock		(11,144,217)	(8,983,676)
		(2,160,541)	(2,773,537)
		906,375,235	876,372,776

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
23.1.1 Raw material consumed			
Opening stock		224,993,697	121,079,064
Purchases - net		856,027,430	786,309,806
		<u>1,081,021,127</u>	<u>907,388,870</u>
Stock destroyed by fire		(104,010,728)	-
Closing stock		(270,410,548)	(224,993,697)
		<u><u>706,599,851</u></u>	<u><u>682,395,173</u></u>
23.1.2	Salaries, wages and benefits include Rs. 3,115,205 (2007: Rs. 3,175,492) in respect of staff retirement benefits		
23.2	It includes waste stock amounting to Rs. 988,777 (2007: Rs. 436,229) carried at Net Realizable Value.		
24. DISTRIBUTION COST			
Local freight and handling		3,014,196	4,058,761
Sea freight		26,615,585	11,841,893
Export expenses		14,953,611	6,997,426
Brokerage and commission		21,760,574	18,795,466
		<u><u>66,343,966</u></u>	<u><u>41,693,546</u></u>
25. ADMINISTRATION EXPENSES			
Salaries and other benefits	25.1	21,000,571	15,017,335
Traveling and conveyance		2,900,611	2,075,154
Printing and stationery		316,030	599,994
Electricity and gas		591,706	455,817
Postage and telephone		950,135	826,762
Vehicles running and maintenance		1,449,879	582,959
Fees and subscription		345,200	477,804
Entertainment		86,804	108,144
Auditors' remuneration	25.2	450,000	335,000
Repairs and maintenance		702,487	312,998
Legal and professional		1,064,662	512,528
Advertisement		42,000	8,550
Insurance		243,411	298,347
Charity and donation	25.3	947,000	1,175,000
Depreciation	12.2	297,615	381,742
Other		66,943	76,451
		<u><u>31,455,054</u></u>	<u><u>23,244,585</u></u>
25.1	Salaries and other benefits include Rs. 1,006,018 (2007: Rs. 675,968) in respect of the staff retirement benefits.		
25.2 Auditors' remuneration			
Audit fee		200,000	125,000
Half yearly review fee		40,000	40,000
Other assignments		210,000	170,000
		<u><u>450,000</u></u>	<u><u>335,000</u></u>
25.3	None of the directors and their spouses had any interest in the donee's fund.		

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
26. OTHER OPERATING EXPENSES			
Workers' Profit Participation Fund		-	1,063,422
Workers' Welfare Fund		384,315	627,968
Loss from fire		31,424,516	-
Loss on disposal of fixed assets		6,362,529	-
Exchange loss-net		7,209,772	-
		<u>45,381,132</u>	<u>1,691,390</u>
27. OTHER OPERATING INCOME			
Exchange gain-net		-	1,517,854
Gain on disposal of property, plant and equipment		-	770,805
Operating profit on saving accounts and team deposits	27.1	8,844,053	4,053,361
Profit on saving accounts and term deposits		351,496	158,570
Miscellaneous income		-	3,845,981
		<u>9,195,549</u>	<u>10,346,571</u>
27.1 Operating profit on trading of raw material			
Sales of raw material		116,466,489	40,894,209
Cost of raw material sold		<u>(107,622,436)</u>	<u>(36,840,848)</u>
		<u>8,844,053</u>	<u>4,053,361</u>
28. FINANCE COST			
Mark-up on:			
Long-term financing			
- from banking companies		11,821,893	14,984,416
- from related party			
- associate		2,864,245	4,704,066
Short-term borrowings		37,000,489	27,635,208
Interest on Workers' Profit Participation Fund		74,840	79,000
Lease finance charges		46,964	140,180
Letters of credit (L/Cs) discounting charges		3,977,245	7,497,142
Bank charges and commission		693,335	630,321
		<u>56,479,011</u>	<u>55,670,333</u>
29. TAXATION			
Current		5,743,745	11,091,564
Deferred		<u>(7,758,287)</u>	<u>(10,798,380)</u>
		<u>(2,014,542)</u>	<u>293,184</u>
29.1	The relationship between tax expense and accounting profit has not been presented in these financial statements as the major portion of total income of the Company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001 and remaining portion falls under final tax regime and hence tax has been provided under section 154 and 169 of the Income Tax Ordinance, 2001.		

	Note	June 30, 2008 Rupees	June 30, 2007 Rupees
30. EARNINGS PER SHARE - BASIC AND DILUTED			
There is no dilutive effect on the basic earnings per share of the Company which is computed as under:			
(Loss) / profit for the year	Rs.	(31,151,257)	18,050,414
Weighted average number of ordinary shares outstanding during the year		500,000	500,000
Earnings per share	Rs.	(62.30)	36.10

31. REMUNERATION TO DIRECTORS AND EXECUTIVES

	2008			2007		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- R u p e e s -----					
Meeting fees	-	38,000	-	-	36,000	-
Remuneration	-	-	15,251,582	-	-	9,528,827
Retirement benefits	-	-	2,844,905	-	-	776,085
Leave encashment	-	-	188,668	-	-	388,042
	-	38,000	18,285,155	-	8,000	10,692,954
No. of persons	1	6	12	1	6	6

31.1 The Chief Executive is entitled for the Company maintained car and reimbursement of medical and utility bills actual and leave fare facility for him and his family.

32. CASH AND CASH EQUIVALENTS

Cash and bank balances	21	10,976,193	23,103,266
Short-term running finance	10.1	(150,279,685)	(54,976,806)
		<u>(139,303,492)</u>	<u>(31,873,540)</u>

33. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, key management personnel and post employment benefit schemes. The Company in the normal course of business carries out transactions with various related parties. Long-term loans obtained from associated company and sponsor directors are disclosed in note 5 whereas amounts due to related party is shown under trade and other payables in note 8. Remuneration of key management personnel is disclosed in note 31 and amount due in respect of staff retirement benefits is disclosed in note 7. Other significant transactions with related parties are as follows:

Nature of transactions	June 30, 2008 Rupees	June 30, 2007 Rupees
Purchase of power	69,232,220	62,642,812
Purchase of assets	-	1,300,000
Purchase of goods	14,324,130	100,433,396
Sale of goods	86,913,165	37,680,659
Share of expenses received	975,742	971,925
Share of expenses paid	968,526	981,912
Dividend income	366,300	366,300
Rent expense	600,000	600,000
Markup charges	2,864,245	4,704,066

	Note	June 30, 2008	June 30, 2007
34. PLANT CAPACITY AND ACTUAL PRODUCTION			
Total number of spindles installed		19,200	19,200
Total number of spindles worked		19,200	19,200
Number of shifts per day		3	3
Installed capacity after conversion into 20/s count-Kgs.		5,372,403	5,372,403
Actual production of yarn after conversion into 20/s count-Kgs		7,137,910	7,527,906

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Interest rate risk/mark-up

Interest rate/mark-up risk arises from the possibility that changes in interest rates / mark-up will effect the value of financial instruments. As the Company does not have significant amounts of interest based financial assets and financial liabilities are largely based on fixed interest rates / mark-up, it is not exposed to significant interest rate / mark-up rate risk. The effective interest/mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

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

	Interest bearing			Non-interest bearing			2008 Total Rupees	2007 Total Rupees
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after after one year	Sub Total		
----- R u p e e s -----								
Financial assets								
Long-term deposits	-	-	-	-	80,039	80,039	80,039	80,039
Long-term investment	-	-	-	-	18,161,620	18,161,620	18,161,620	17,514,426
Trade debts-considered good	-	-	-	164,083,340	-	164,083,340	164,083,340	164,195,699
Loans and advances	-	-	-	2,181,731	-	2,181,731	2,181,731	1,298,773
Trade deposits	-	-	-	-	-	-	-	3,867
Other receivables	-	-	-	40,959,303	-	40,959,303	40,959,303	778,803
Other financial assets	4,239,992	-	4,239,992	-	-	-	4,239,992	3,096,121
Cash and bank balances	4,576,249	-	4,576,249	6,399,944	-	6,399,944	10,976,193	23,103,266
	<u>8,816,241</u>	<u>-</u>	<u>8,816,241</u>	<u>213,624,318</u>	<u>18,241,659</u>	<u>231,865,977</u>	<u>240,682,218</u>	<u>210,070,994</u>
Financial liabilities								
Long-term financing	32,071,640	203,766,687	235,838,327	-	-	-	235,838,327	139,489,270
Liabilities against assets subject to finance lease	74,579	-	74,579	-	-	-	74,579	673,263
Trade and other payables	-	-	-	40,761,506	-	40,761,506	40,761,506	33,588,820
Accrued interest / mark-up on loans	-	-	-	12,368,522	-	12,368,522	12,368,522	10,287,327
Short-term borrowings	452,260,727	-	452,260,727	-	-	-	452,260,727	345,755,884
	<u>484,406,946</u>	<u>203,766,687</u>	<u>688,173,633</u>	<u>53,130,028</u>	<u>-</u>	<u>53,130,028</u>	<u>741,303,661</u>	<u>529,794,564</u>
Off balance sheet items:								
Letter of credit	-	-	-	-	-	-	296,975,121	172,044,612
Bank guarantees	-	-	-	-	-	-	23,778,064	18,678,064
Export bill discounted	-	-	-	-	-	-	99,477,438	82,305,547
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420,230,623</u>	<u>273,028,223</u>
On balance sheet gap	(475,590,705)	(203,766,687)	(679,357,392)	160,494,290	18,241,659	178,735,949	(500,621,443)	(319,723,570)
Off balance sheet gap	-	-	-	-	-	-	(420,230,623)	(273,028,223)

35.3 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs. 240,682,218 (2007: Rs. 210,070,994), the financial assets which are subject to credit risk amounted to Rs. 240,049,999 (2007: Rs. 209,827,868). The Company manages credit risk in trade receivables by assigning credit limits to its customers and thereby does not have significant exposure to any individual customer.

35.4 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. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

35.5 Foreign exchange risk

Foreign currency 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.

35.6 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The carrying value of all the financial instruments reported in the financial statements approximate their fair value.

36. CAPITAL DISCLOSURE

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

The capital structure of the Company consists of share capital and reserves as well as debts of the Company. Share capital and reserves consist of share capital and unappropriated profit. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the shareholders or issue new shares. The Company's overall strategy remains unchanged from 2007.

The Company is not subject to any externally imposed capital requirements.

37. SUBSEQUENT EVENT

The Board of Director proposed the final dividend for the year ended June 30, 2008 of Rs. NIL (2007: Re. 2.50 per share) amounting to Rs. NIL (2007: Rs 1.250 million). These financial statements do not reflect dividend payable.

38. 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 29, 2008.

39. RECLASSIFICATION

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

From	To	Nature	Amount re-classified Rupees
Prepayments	Investments - held to maturity	Guarantee margin deposits	2,188,407
Other operating expenses	Other operating expenses	Exchange loss net off with exchange gain	57,038



**SHAHID ANWAR TATA
CHIEF EXECUTIVE**



**ANWAR AHMED TATA
CHAIRMAN/DIRECTOR**

PROXY FORM

ISLAND TEXTILE MILLS LIMITED

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

I/We _____

of _____

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

Ordinary Shares, do hereby appoint _____

of _____

or falling him/her _____

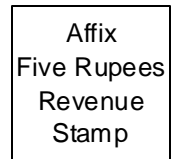
of _____

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

as my/our proxy to act on my/our behalf at the 39th Annual General Meeting of the Company to be held on Friday the October 31, 2008 at 10 : 30 A.M. and/or at any adjournment thereof.

Signature this _____ day of _____ 2008.

Signature



(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 along with 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.