

**FAZAL CLOTH MILLS LIMITED**  
**SELECTED EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2007**

1. Fazal Cloth Mills Limited (the Company) was incorporated in Pakistan in 1999 as a Public Limited Company and its shares are quoted on Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at 3rd floor, 35 Bank Square, Lahore. The Company is engaged in manufacture and sale of yarn. The Company's manufacturing facilities are located at Fazal Nagar, Jhang Road, Muzaffargarh and Gadiapur Rawan Bypass, Kharnaul Road, Multan.
2. These un-audited interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' and in compliance with requirements of section 245 of the Companies Ordinance, 1984. A limited scope review of these interim financial statements has been performed by the external auditors of the company in accordance with the requirements of clause (xii) of the Code of Corporate Governance.
3. The accounting policies and conventions adopted for the preparation of these half yearly financial statements are the same as those applied in the preparation of the financial statements for the year ended June 30, 2007 except for policy adopted for short term investment made during the year as stated below.

**Short term investment**

Short term investments are designated at fair value through profit or loss at inception. These are initially measured at fair value and changes in re-measurement are taken to profit and loss account. Regular way purchase or sale of held for trading investments is recognized using trade date accounting. A trade date is the date that an enterprise commits to purchase or sell an asset. 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.

	Note	Un-audited December 31, 2007	Audited June 30, 2007
(Amount in Rupees)			
<b>4. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets	4.1	5,247,800,712	5,355,055,998
Capital work in progress		500,798,909	198,408,490
		<u>5,748,599,621</u>	<u>5,553,464,488</u>
4.1 Opening balance		5,355,055,998	2,292,072,219
Additions during the period / year			
Cost			
Freehold land		-	2,150,180
Factory building		-	43,308,513
Plant and machinery		8,332,750	323,378,992
Furniture and fixtures		544,544	906,890
Office equipment		2,918,972	1,099,827
Vehicles		1,471,771	7,074,529
Electric fittings and installations		1,862,231	18,730,810
Sul gas installations		-	49,818
Tools, laboratory equipment and arms		-	100,000
Fire extinguishing equipment and weighing scales		-	127,000
		15,368,274	387,327,536
Revaluation surplus			
Freehold land		-	494,326,032
Factory building		-	405,245,750
Non factory building		-	245,316,213
Plant and machinery		-	1,705,044,328
Electric fittings and installations		-	38,205,127
Sul gas installations		-	1,074,304
Tools, laboratory equipment and arms		-	13,513,285
Fire extinguishing equipment and weighing scales		-	17,501,072
		-	2,915,827,905
Book value of assets disposed off during the period / year		(10,000)	(2,422,819)
Depreciation charge for the period / year			
Normal on cost		(51,908,230)	(248,348,842)
Incremental on revaluation surplus		(80,537,526)	-
Closing book value		<u>5,247,800,712</u>	<u>5,355,055,998</u>

- 4.2 During the current period, Company reviewed the useful life of some of the operating assets and estimated that useful life of these assets is higher than existing. Accordingly depreciation rates of the following operating assets were reduced from 10% p.a to 9% p.a:

**Nature of operating assets**

Factory building  
Plant and machinery  
Electric fittings and installation  
Sul gas installations  
Tools, laboratory equipments and arms  
Fire extinguishing equipment and weighing scales

The above mentioned revision has been accounted for as change in accounting estimates in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly the effect of change in accounting estimate has been recognized prospectively in the profit and loss account for the current period. Had there been no change in the accounting estimate, the profit before taxation for the period and written down value of these operating assets would have been decreased by Rs.111.787 million.

**5. LONG TERM INVESTMENTS**

Un-audited December 31, 2007	Audited June 30, 2007	Note	Un-audited December 31, 2007	Audited June 30, 2007
<u>(Number of ordinary shares)</u>			<u>(Amount in Rupees)</u>	
<b>Investment in associates</b>				
104,500	104,500	Fazal Industries (Pvt.) Ltd. Equity interest held 9.5% (June 30, 2007: 9.5%)	475,000	475,000
		Less: Provision for diminution in value	475,000	475,000
17,103,740	4,258,890	Pak Arab Fertilizers Ltd. Equity interest held 5.73% (June 30, 2007: 5.73%)	252,996,706	252,996,706
			<u>252,996,706</u>	<u>252,996,706</u>

5.1 Break up value per share on the basis of unaudited financial statements for the year ended June 30, 2007 is Rs. Nil.

5.2 Financial statements of the associate as of December 31, 2007 are not available, therefore, the investments as of December 31, 2007 could not be re-measured on equity basis as required by the IAS-28.

5.3 During the period the company has received 12,835,074 shares as bonus issue by associate.

**6. SHORT TERM INVESTMENTS**

Held for trading - Quoted (At fair value)

Allied Bank Limited 108,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs. 130.15 each	24,485,200	
Pakistan Petroleum Limited 63,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs.345.65 each	20,336,150	
Fajri Fertilizers Bin Qasim Limited 600,000 (June 30, 2007: Nil) fully paid ordinary shares of Rs. 42.65 each	21,025,000	
	<u>65,832,350</u>	

7. DEMAND FINANCES

During the year a demand finance amounting Rs. 36,010 million from Habib Bank Limited has been obtained for retirement of letters of credit opened for imported plant and machinery and for swap of existing long term loans. Sanctioned limit of this finance is Rs. 290.00 million. It is repayable within a period of seven years including one year grace period in 12 equal semi annual installments of principal amount. It carries mark up at the rate of 6 months LIBOR, plus spread of 1.00% p.a for first year, 1.25% p.a for second year and 1.50% p.a from third year and onward. It is secured against first pari passu charge of Rs. 257.00 million on fixed assets of the Company and personal guarantees of all sponsoring directors of the Company.

8. TAXATION

Provision for current period taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.8% of turnover, whichever is higher.

9. CONTINGENCIES AND COMMITMENTS

9.1 There has been no change in status of contingent liabilities since the annual published financial statements as at June 30, 2007.

9.2 Counter guarantees given by the Company to its bankers outstanding as on December 31, 2007 were Rs. 652.790 million (June 30, 2007: Rs. 147.523 million).

9.3 Commitments for irrevocable letters of credit:

	Un-audited December 31, 2007	Audited June 30, 2007
	(Rupees in million)	
Capital expenditure	63,490	270,297
Revenue	584,893	400,422
	648,383	670,719

10. RELATED PARTY TRANSACTIONS

10.1 Aggregate transactions made during the period / year with the associated undertakings were as follows:

	Un-audited December 31, 2007	Audited June 30, 2007
	(Amount in Rupees)	
Sale of goods	362,478,870	595,750,182
Purchase of goods	129,411,830	107,051,404
Transfer of operating assets	-	104,303
Services received	-	47,473

10.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

11. These financial statements were authorized for issue by the Board of Directors on **Feb 25 2008**

12. FIGURES

Figures have been rounded-off to nearest rupee, except stated otherwise.

  
CHIEF EXECUTIVE OFFICER

  
DIRECTOR

  
CHIEF FINANCIAL OFFICER