



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

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan as a public limited Company under the Companies Ordinance, 1984. The shares of the Company are quoted on the Karachi, Lahore and Islamabad Stock Exchanges. The Company is principally engaged in the manufacturing and sale of man-made blended yarn at Hub Industrial Trading Estate, Hub Chowki, and a “compartmentalized cold store” located at Karachi. The registered office of the Company is located at SF-96, S.I.T.E., Karachi, Pakistan.

2. 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 (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These financial statements have been prepared under the historical cost convention.

3.2 Accounting standards not yet effective

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

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 - Borrowings Costs (Revised)	January 01, 2009
IAS 27 - Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IFRS 3 - Business Combinations	January 01, 2009
IFRS 7 - Financial Instruments: Disclosures	July 01, 2008
IFRS 8 - Operating Segments	January 01, 2009
IFRIC 12 - Service Concession Arrangements	January 01, 2009
IFRIC 13 - Customer Loyalty Programs	July 01, 2008
IFRIC 14 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008

The Company expects that the adoption of the above standards and interpretations will have no material impact on the Company's financial statements in the period of initial application other than certain changes and enhancements in presentation and disclosures.

3.3 Significant accounting judgements and estimates

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 judgement in the process of applying the company's accounting policies. Estimate and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the company's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 14.1.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

Property, plant and equipment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the recommendation of technical team of the Company. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of tangible fixed assets with a corresponding affect on the depreciation charge and impairment.

Income Taxes

In making the estimates for income taxes payable by the Company, the management considers current Income Tax law and the decisions of appellate authorities on certain cases issued in past.

Deferred tax assets are recognized for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.4 Employee benefits

3.4.1 Defined Benefit Gratuity Scheme

The Company operates a recognised, funded defined benefit gratuity scheme for all its permanent employees. Contributions are made to the fund on the basis of actuarial recommendations. The scheme is administered by the trustees nominated under the trust deed. The most recent actuarial valuation of the scheme was carried out as of June 30, 2008. The actuarial valuation is carried out using the Projected Unit Credit Method. Under this method, the cost of providing gratuity is charged to the income statement so as to spread the cost over the service lives of the employees in accordance with the advice of qualified actuaries.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under the scheme.

Actuarial gains / losses in excess of corridor limit as of the balance sheet date are recognised over the remaining service lives of employees.

3.4.2 Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary levels.

3.5 Taxation**3.5.1 Current**

Provision for current taxation is the higher of the amount computed on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and minimum tax computed at the prescribed rate on sales.

3.5.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realizable.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

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

3.6 Fixed assets and depreciation**3.6.1 Operating Property, plant and equipment**

These are stated at cost less accumulated depreciation and impairment, if any, except for leasehold land, capital work in progress and SF/96 premises (tenancy rights), which are stated at historical cost.

Depreciation is charged to income using straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month the asset is in use. Assets' residual values and useful lives are reviewed, and adjusted, if appropriate annually.

The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that respective future economic benefits will flow to the company.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

3.6.2 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

3.7 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of fixed assets are capitalized in the relevant fixed asset for the period upto the date of commercial production, or commencement of its intended use. All other borrowing costs are charged to profit and loss account as and when incurred.

3.8 Foreign currency translation

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3.9 Stock in trade

These are stated at the lower of cost and net realizable value.

Cost signifies in relation to:

- | | |
|--------------------------------------|--|
| - Raw and packing material | - on a weighted average basis |
| - Stock-in-transit | - at cost to balance sheet date |
| - Work-in-process and finished goods | - at weighted average cost of raw material and applicable labour and manufacturing overheads |
| - Waste stock | - net realizable value |

Net realizable value is determined by considering selling price of stock in the ordinary course of business less costs of completion and cost necessary to be incurred in order to make the sale.

3.10 Stores and spares

The cost of stores and spares are charged to revenue as and when acquired. The cost of stores and spares inventory left unused is not considered material.

3.11 Trade debts and other receivables

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

3.12 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

3.13 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

3.14 Revenue recognition

Revenue from sale of goods is recognised upon passage of title to the customer which generally coincides with physical delivery and acceptance of the goods.

Other revenues are recognised on accrual basis.

3.15 Provisions

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

3.16 Financial instruments

Financial instruments carried on the balance sheet include investments, receivables, cash and bank balances and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and it intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

3.17 Related party transactions

All transactions with related parties are carried out by the Company using the methods prescribed under the Companies Ordinance, 1984.

3.18 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are charged to income.

3.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves is recognised in the Company's financial statements in the period in which these are approved.

	Note	2008 ----- (Rupees) -----	2007
4. PROPERTY, PLANT AND EQUIPMENT			
Operating property, plant and equipment	4.1	171,946,162	175,731,645
Capital work-in-progress		184,854	-
		<u>172,131,016</u>	<u>175,731,645</u>

4.1 Operating property, plant and equipment

	COST			DEPRECIATION			Book value at June 30, 2008	Rate %
	At July 01, 2007	Additions/ (disposals)	At June 30, 2008	At July 01, 2007	For the year / (disposals)	At June 30, 2008		
	(Rupees)			(Rupees)				
Property, plant and equipment								
Leasehold land	12,095,494	-	12,095,494	-	-	-	12,095,494	-
SF/96 Premises (tenancy rights)	5,000,000	-	5,000,000	-	-	-	5,000,000	-
Buildings on leasehold land	56,198,645	2,046,144	58,244,789	29,642,564	3,028,350	32,670,914	25,573,875	10
Office premises SF/96	2,406,207	225,113	2,631,320	1,383,571	240,621	1,624,192	1,007,128	10
Plant and machinery	403,670,992	7,206,767	410,877,759	286,915,969	16,882,081	303,798,050	107,079,709	10
Electrification – factory building	7,523,660	3,458,190	10,981,850	3,174,101	567,950	3,742,051	7,239,799	10
Handling equipments	2,791,850	1,270,106	4,061,956	185,346	298,267	483,613	3,578,343	10
Furniture, fixture and office equipment	3,664,785	167,575 (88,425)	3,743,935	1,666,948	321,565 (57,155)	1,931,358	1,812,577	10
Refrigerated Vans	-	3,365,138	3,365,138	-	373,867	373,867	2,991,271	33.33
Vehicles	8,514,233	3,579,963 (2,902,859)	9,191,337	3,259,332	1,674,356 (1,141,116)	3,792,572	5,398,765	20
Computers	932,138	98,800	1,030,938	838,528	23,209	861,737	169,201	20
2008	502,798,004	21,417,796 (2,991,284)	521,224,516	327,066,359	23,410,266 (1,198,271)	349,278,354	171,946,162	

	COST			DEPRECIATION			Book value at June 30, 2007	Rate %
	At July 01, 2006	Additions/ (disposals)	At June 30, 2007	At July 01, 2006	For the year / (disposals)	At June 30, 2007		
	(Rupees)			(Rupees)				
Property, plant and equipment								
Leasehold land	5,282,619	6,812,875	12,095,494	-	-	-	12,095,494	-
SF/96 Premises (tenancy rights)	5,000,000	-	5,000,000	-	-	-	5,000,000	-
Buildings on leasehold land	30,798,974	25,399,671	56,198,645	27,724,675	1,917,889	29,642,564	26,556,081	10
Office premises SF/96	2,406,207	-	2,406,207	1,142,950	240,621	1,383,571	1,022,636	10
Plant and machinery	339,680,035	63,990,957	403,670,992	271,389,832	15,526,137	286,915,969	116,755,023	10
Electrification – factory building	3,519,709	4,003,951	7,523,660	2,807,056	367,045	3,174,101	4,349,559	10
Handling equipments	-	2,791,850	2,791,850	-	185,346	185,346	2,606,504	10
Furniture, fixture and office equipment	2,710,515	956,970 (2,700)	3,664,785	1,402,426	265,129 (607)	1,666,948	1,997,837	10
Vehicles	8,022,673	1,934,060 (1,422,500)	8,514,233	2,593,649	1,712,415 (1,046,732)	3,259,332	5,254,901	20
Computers	861,878	70,260	932,138	825,120	13,408	838,528	93,610	20
2007	398,282,610	105,960,594 (1,445,200)	502,798,004	307,885,708	20,227,990 (1,047,339)	327,066,359	175,731,645	

4.1.1 The depreciation charge for the year has been allocated as follows:

	Note	2008 ----- (Rupees) -----	2007
Manufacturing overheads	19	21,368,405	17,655,635
Fuel and power	19.1	1,125,336	1,987,060
Distribution costs	20	840	-
Administrative expenses	21	915,685	585,295
		23,410,266	20,227,990

4.1.2 Details of property, plant and equipment sold are given below:

Description	Date/Year of Acquisition	Original Cost	Accumulated depreciation	Book Value	Sale Proceeds	Gain / (Loss)	Mode of Disposal	Particulars of buyers
Fax Machine Panasonic KX-FLM 600BX	03-July-2007	54,625	36,875	17,750	9,975	(7,775)	Trade – In	Electronic Office Products, 305 Clifton Centre, Karachi
Motor Cycle KAV-2267	15-Oct-2002	45,500	43,225	2,275	14,000	11,725	Negotiation	Mr. Hassan Arzoo Employee
Motor Car - AMQ-662 Premio	12-July-2007	1,435,400	239,233	1,196,167	-	(1,196,167)	Theft	-
Motor Car – AAL-328 Toyota Corolla	20-July-2005	708,612	366,115	342,497	385,000	42,503	Negotiation	Syed Fayaz Hassan A-460,block J, North Nazimabad, Karachi
Split Air Conditioner SF-96	19-Dec-2003	33,800	20,280	13,520	2,800	(10,720)	Negotiation	Binoria Air Conditioning Services, SITE, Karachi
Motor Car – ABM-432 Suzuki Mehran	16-Mar-2004	208,347	155,877	52,470	137,000	84,530	Negotiation	Syed Fayaz Hassan A-460,Block J, North Nazimabad, Karachi
Motor Car – ABQ-406 Nissan Sunny	30-Oct-2004	505,000	336,666	168,334	230,000	61,666	Negotiation	Syed Fayaz Hassan A-460,Block J, North Nazimabad, Karachi
		2,991,284	1,198,271	1,793,013	778,775	(1,014,238)		

Note 2008 2007
----- (Rupees) -----

5. STOCK IN TRADE

Raw and packing materials	33,398,340	30,587,560
Work in process	7,555,693	5,486,944
Finished goods	30,820,182	26,583,058
Waste stock	543,970	885,180
Stock in transit	6,434,042	5,661,081
	<u>78,752,227</u>	<u>69,203,823</u>

6. LOANS AND ADVANCES – considered good

Loans to employees – secured	6.1	1,100,359	1,018,654
Advances – unsecured			
- to contractors		502,812	335,812
- against imports and local purchases		208,391	21,988
		711,203	357,800
		<u>1,811,562</u>	<u>1,376,454</u>

6.1 These represent interest free loans to employees for personal use in accordance with the Company policy and are secured against balance of gratuity fund. These are recoverable in equal monthly installments.

SANA INDUSTRIES LIMITED

	Note	2008 ----- (Rupees) -----	2007
7. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Deposits		-	300,000
Prepayments		<u>2,583,383</u>	<u>246,289</u>
		<u>2,583,383</u>	<u>546,289</u>
8. OTHER RECEIVABLES			
Sales tax refundable		<u>1,374,157</u>	1,119,680
Others		<u>1,709,186</u>	<u>265,341</u>
		<u>3,083,343</u>	<u>1,385,021</u>
9. TAXATION – NET			
Refundable income tax		<u>2,144,352</u>	-
Advance income tax (tax year 2008)		<u>2,429,256</u>	4,198,918
Provision for taxation		<u>(2,172,937)</u>	<u>(2,054,566)</u>
		<u>2,400,671</u>	<u>2,144,352</u>
10. CASH AND BANK BALANCES			
With banks			
- on current accounts		<u>1,681,859</u>	6,203,256
- on saving accounts	10.1	<u>2,427,008</u>	<u>8,823,931</u>
		<u>4,108,867</u>	15,027,187
Cash in hand		<u>338,757</u>	<u>301,732</u>
		<u>4,447,624</u>	<u>15,328,919</u>

10.1 These carry profit at the rate of 3.42% per annum (2007: 3.10% per annum).

SANA INDUSTRIES LIMITED

	Note	2008	2007																								
		----- (Rupees) -----																									
11. SHARE CAPITAL																											
11.1 Authorised capital																											
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11.2 Issued, subscribed and paid-up capital																											
Fully paid ordinary shares of Rs. 10/- each																											
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	2008	2007																									
	4,000,000	4,000,000	cash																								
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		<u>55,000,000</u>	<u>55,000,000</u>																								

12. LONG-TERM MURABAHA

Long-term financing arrangement from a commercial bank
Less : Current portion

12.1

19,365,160	45,185,374
<u>(19,365,160)</u>	<u>(25,820,214)</u>
<u>-</u>	<u>19,365,160</u>

12.1 Long-term Murabaha has been obtained from a commercial bank to establish a "Compartmentalized Cold Store Project" at Karachi. The principal amount of Murabaha and profit thereupon was to be repaid in 27 equal installments, commencing six months after the date of disbursement. The profit rate for the entire tenure of Murabaha has been fixed at 12.75% per annum. The facility is repayable by March 20, 2009. The Murabaha is secured against execution of Promissory Note, first equitable mortgage charge over project's land and building, hypothecation charge over project's plant and machinery, hypothecation charge over present and future receivables of the project and personal guarantees of three Directors.

Note

2008
----- (Rupees) -----

2007

13. DEFERRED TAXATION

Deferred tax liability on taxable temporary differences

Tax depreciation allowance

19,706,922	19,719,016
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Deferred tax asset on deductible temporary differences

Unabsorbed tax loss

<u>(14,591,966)</u>	<u>(17,491,720)</u>
<u>5,114,956</u>	<u>2,227,296</u>

SANA INDUSTRIES LIMITED

	Note	2008 ----- (Rupees) -----	2007
14. TRADE AND OTHER PAYABLES			
Creditors		4,519,842	1,702,384
Accrued liabilities		10,929,249	9,646,435
Employees accumulating compensated absences		421,673	344,121
Payable to the gratuity fund	14.1	1,976,821	2,138,495
Workers' profits participation fund		380,854	-
Unpaid and unclaimed dividends		434,268	444,373
Others		70,499	32,210
		18,733,206	14,308,018

14.1 Gratuity payable

14.1.1 Defined benefit plan

As mentioned in note 3.4.1, the Company operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2008.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	2008 (Rupees)	2007
Present value of defined benefit obligation	10,475,331	8,797,946
Fair value of plan assets	(11,784,874)	(10,024,899)
Unrecognised actuarial gain / (loss)	3,286,364	3,365,448
Liability recognised in the balance sheet	1,976,821	2,138,495

Amounts charged to profit and loss account:

Current service cost	1,532,502	1,532,248
Interest cost	879,795	822,814
Expected return on plan assets	(1,210,816)	(767,957)
Actuarial loss recognized	(269,329)	-
	932,151	1,587,105

The charge for the year has been allocated as follows:

Manufacturing and service expenses	543,135	655,465
Fuel and power	40,808	32,841
Distribution costs	69,119	136,092
Administrative expenses	279,089	762,707
	932,151	1,587,105

SANA INDUSTRIES LIMITED

2008 **2007**
(Rupees)

Movement in the liability recognised in the balance sheet:

Balance as at July 01	2,138,495	267,875
Net charge for the year	932,151	1,587,105
Contribution to the fund	(1,093,825)	(1,799,750)
Amount received from the fund	-	2,083,265
Balance as at June 30	1,976,821	2,138,495

Movement in the present value of defined benefit obligation:

Opening balance	8,797,946	9,142,380
Current service cost	1,532,502	1,532,248
Interest cost	879,795	822,814
Benefits paid	(448,330)	(1,799,750)
Actuarial gain	(286,582)	(899,746)
Balance as at June 30	10,475,331	8,797,946

Movement in the fair value of plan assets:

Opening balance	12,108,164	8,532,856
Expected return	1,210,816	767,957
Contributions	1,093,825	1,799,750
Benefits paid	(448,330)	(1,799,750)
Actuarial (loss)/gain	(2,179,601)	2,807,351
Balance as at June 30	11,784,874	12,108,164

Principal actuarial assumptions used are as follows:

Expected rate of increase in salary level	12%	10%
Valuation discount rate	12%	10%
Rate of return on plan assets	9%	10%

Comparisons for five years:

	2008	2007	2006	2005	2004
As at June 30	----- (Rupees) -----				
Present value of defined benefit Obligation	10,475,331	8,797,946	9,142,380	9,108,511	7,758,386
Fair value of plan assets	11,784,874	12,108,164	8,532,856	6,271,902	(5,999,850)
Surplus / (Deficit)	1,309,543	3,310,218	(609,524)	(2,836,609)	1,758,536
Experience adjustment on plan Liabilities	(286,582)	(899,746)	(849,994)	-	-
Experience adjustment on plan Assets	2,179,601	2,807,351	430,882	-	-

2008 **2007**
(Rupees)

Major categories / composition of plan assets are as follows:

Equity	11,649,933	11,963,473
Cash at bank	134,941	144,691
	11,784,874	12,108,164

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during the year was Rs. 1,480,145 (2007: Rs. 3,575,308).

SANA INDUSTRIES LIMITED

	Note	2008 ----- (Rupees) -----	2007 -----
15. SHORT TERM BORROWINGS – Unsecured			
Loan from Directors		<u>18,900,000</u>	<u>-</u>

15.1 Represents interest free loan from directors and family members, repayable on demand.

16. MURABAHA

Short-term Murabaha arrangement from a commercial bank	16.1	<u>104,840,505</u>	<u>103,096,436</u>
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16.1 Short-term Murabaha arrangement had been obtained from a commercial bank for the regular purchases of raw material. The bank had approved a facility of Rs.105 million. The unavailed facility is Rs.159,495/-. The effective rate of profit on Murabaha facility ranges between 11.18% to 15.35% (based on KIBOR + 1.25% per annum). The arrangement is secured against Equitable Mortgage of Factory Land, Building and Plant & Machinery located at H.I.T.E., Hub, Balochistan, hypothecation of goods imported / purchased under this financing, execution of promissory notes and personal guarantees of three Directors of the Company.

	Note	2008 ----- (Rupees) -----	2007 -----
--	------	------------------------------	---------------

17. CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

Claims pending adjudication	17.1.1	<u>2,881,420</u>	<u>2,881,420</u>
Letter of guarantee issued by a commercial bank for securing gas payments		<u>6,189,000</u>	<u>6,189,000</u>

17.1.1 A constitutional petition was filed by the Company in the Honourable High Court of Sindh at Karachi, challenging the ruling given by the Labour, Manpower and Overseas Pakistani's Division (Labour Wing) on the issue of payment of interest on Workers' Profits Participation Fund. The Company contends that no interest is payable on Workers' Profits Participation Fund as the amounts involved were disbursed before their respective due dates. This petition has however been dismissed by the Honourable High Court of Sindh at Karachi, vide its Judgement dated 14/12/2004. Civil petition for leave to appeal has been filed with the Appellate Jurisdiction of the Supreme Court of Pakistan for the grant of 'Leave to Appeal', which is pending with the Supreme Court of Pakistan. The aggregate amount involved is Rs. 2,881,420/- (2007: Rs. 2,881,420/-). The management and the Company's legal counsel are optimistic about the outcome of the appeal. Therefore, no provision for the above amount has been made in these financial statements.

		2008 ----- (Rupees) -----	2007 -----
17.2 Commitments			
Capital expenditure contracted for but not incurred		<u>11,672</u>	<u>-</u>
Outstanding letters of credit		<u>15,327,597</u>	<u>7,964,490</u>
Custom duty and income tax on stock in transit		<u>398,370</u>	<u>461,579</u>

SANA INDUSTRIES LIMITED

	Note	2008	2007
		----- (Rupees) -----	
18. TURNOVER – net			
Goods - Local			
Yarn		374,335,027	379,237,328
Carded fibres		5,431,303	376,874
Waste		5,887,966	3,145,181
		<u>385,654,296</u>	<u>382,759,383</u>
Less: Commission and discount		(49,084)	(167,215)
		<u>385,605,212</u>	<u>382,592,168</u>
Services			
		48,982,196	28,320,993
		<u>434,587,408</u>	<u>410,913,161</u>
19. COST OF SALES AND SERVICES			
Raw and packing material consumed			
Opening stock		30,587,560	23,325,802
Purchases		281,595,227	284,736,722
		<u>312,182,787</u>	<u>308,062,524</u>
Closing stock		(33,398,340)	(30,587,560)
		<u>278,784,447</u>	<u>277,474,964</u>
Manufacturing and services expenses			
Fuel and power	19.1	46,635,747	45,212,922
Salaries, wages and benefits	14.1.1	40,111,001	38,644,388
Repairs and maintenance	19.2	9,028,385	9,461,750
Insurance		1,762,539	1,468,574
Rent, rates and taxes		342,645	292,645
Depreciation	4.1.1	21,368,405	17,655,635
Security		1,308,860	1,363,875
Other manufacturing overheads		3,564,070	2,976,733
		<u>124,121,652</u>	<u>117,076,520</u>
		<u>402,906,099</u>	<u>394,551,484</u>
Work-in-process			
Opening stock		5,486,944	7,132,777
Closing stock		(7,555,693)	(5,486,944)
		<u>(2,068,749)</u>	<u>1,645,833</u>
Cost of goods manufactured and services rendered		<u>400,837,350</u>	<u>396,214,317</u>
Finished goods			
Opening stock		27,468,238	20,734,029
Closing stock		(31,364,152)	(27,468,238)
		<u>(3,895,914)</u>	<u>(6,734,209)</u>
		<u>396,941,436</u>	<u>389,480,108</u>

SANA INDUSTRIES LIMITED

	Note	2008	2007
		----- (Rupees) -----	
19.1 Fuel and power			
Generation cost:			
Salaries, wages and benefits	14.1.1	793,554	820,785
Gas expenses		31,135,000	36,139,210
Oil and lubricants		938,170	1,349,278
Repairs and maintenance	19.2	1,138,848	577,244
Depreciation	4.1.1	1,125,336	1,987,060
Insurance		115,254	110,705
Electricity charges and duty		11,355,044	4,205,098
Others		34,541	23,542
		<u>46,635,747</u>	<u>45,212,922</u>

19.2 Includes stores and spares purchased during the year amounting to Rs. 3,878,999/- (2007: Rs. 4,461,768/-).

	Note	2008	2007
		----- (Rupees) -----	
20. DISTRIBUTION COSTS			
Salaries, wages and benefits	14.1.1	1,176,074	1,182,040
Packing and forwarding expenses		926,784	1,032,823
Communication		268,801	312,331
Sales promotion expenses		17,488	7,901
Depreciation	4.1.1	840	-
Advertising expenses		123,137	-
		<u>2,513,124</u>	<u>2,535,095</u>

21. ADMINISTRATIVE EXPENSES

Salaries, wages and benefits	14.1.1	6,160,131	6,351,938
Printing and stationery		135,058	199,723
Legal and professional charges		671,917	667,036
Auditors' remuneration	21.1	183,000	177,500
Fees and subscription		242,626	216,067
Travelling and conveyance		132,899	307,559
Repairs and maintenance		607,901	637,830
Rent, rates and taxes		109,139	88,844
Depreciation	4.1.1	915,685	585,295
Security expenses		116,780	98,762
Electricity and gas		474,142	465,839
Insurance		138,514	77,069
Other expenses		260,774	228,072
		<u>10,148,566</u>	<u>10,101,535</u>

21.1 Auditors' remuneration

Audit fee		152,000	137,500
Review of half yearly financial statements		15,000	10,000
Other certifications		6,000	10,000
Out of pocket expenses		10,000	20,000
		<u>183,000</u>	<u>177,500</u>

22. OTHER OPERATING EXPENSES

Workers' profits participation fund		380,854	-
Loss on disposal of fixed assets	4.1	1,014,238	-
		<u>1,395,092</u>	<u>-</u>

SANA INDUSTRIES LIMITED

	Note	2008	2007
		----- (Rupees) -----	-----
23. OTHER OPERATING INCOME			
Profit on disposal of fixed assets	4.1	-	86,639
Profit on saving account		141,360	137,433
Reversal of Workers Welfare Fund – prior year		-	53,654
Others		-	4,102
		<u>141,360</u>	<u>281,828</u>
24. FINANCE COSTS			
Murabaha profit		16,376,294	14,121,677
Guarantee commission		64,985	64,985
Bank charges		53,052	25,216
		<u>16,494,331</u>	<u>14,211,878</u>
25. PROVISION FOR TAXATION			
Current – for the year		2,172,937	2,054,566
- for prior year		5,895	(1,014,472)
		<u>2,178,832</u>	1,040,094
Deferred – for the year		2,887,660	(782,296)
		<u>5,066,492</u>	<u>257,798</u>

25.1 In view of taxable loss for the year, provision for taxation is made at the rate of 0.5 percent of turnover. Accordingly, no numeric tax reconciliation is given.

26. EARNINGS/(LOSS) PER SHARE

There is no dilutive effect on the basic earnings/(loss) per share of the Company which is based on:

	2008	2007
	----- (Rupees) -----	-----
Profit/(loss) for the year after taxation	<u>2,169,727</u>	<u>(5,391,425)</u>
	Number of Shares	
Weighted average number of shares in issue during the year	<u>5,500,000</u>	<u>5,500,000</u>
	Rupees	
Earnings/(loss) per share – Basic	<u>0.39</u>	<u>(0.98)</u>

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount, charged in the financial statements for the year are as follows:

	Chief Executive		Directors		Total	
	2008	2007	2008	2007	2008	2007
	----- (Rupees) -----					
Remuneration	1,200,000	1,200,000	1,999,920	1,999,920	3,199,920	3,199,920
House rent	480,000	480,000	800,000	800,088	1,280,088	1,280,088
Retirement benefits	81,560	167,650	135,932	303,068	217,492	470,718
Utilities	120,000	120,000	199,992	199,992	319,992	319,992
	1,881,560	1,967,650	3,135,844	3,303,068	5,017,492	5,270,718
Number of persons	1	1	2	2	3	3

Executives

None of the employees of the Company fall under the definition of "executives" as provided in Clause 2(iii) of the Fourth Schedule to the Companies Ordinance, 1984.

In addition, the directors are also provided with the free use of Company maintained cars and mobile telephone facility principally for business purposes.

	2008	2007
	----- (Rupees) -----	
The aggregate amount charged in the accounts for the year for fee to one director	2,000	3,500

28. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise related group companies, staff retirement funds, companies where directors also held directorship, directors and key management personnel. Transactions with associated companies and other related parties other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in Note 27 are as follows:

Relationship	Nature of transactions	2008	2007
		----- (Rupees) -----	
Group companies	Purchase of goods	-	60,200
	Sale of goods	-	410,950
Staff retirement benefit plans	Contribution to gratuity fund	1,093,825	1,799,750
Other related parties	Loan from directors – mark-up free	26,399,500	22,790,000
	Repayment of loan to directors	7,499,500	22,790,000

SANA INDUSTRIES LIMITED

2008 **2007**
----- (Rupees) -----

29. CAPACITY AND PRODUCTION

Number of spindles installed	26,944	26,944
Average number of spindles operated during the year	19,374	24,472
Installed production capacity 30/S count – kg	4,184,784	5,189,904
Actual production	2,286,830	2,711,910
Number of shifts per day	Three	Three

Shortfall in production compared to the installed capacity is due to the factor of aging of plant which is resulting in lesser efficiency.

30. WORKING CAPITAL CHANGES

2008 **2007**
----- (Rupees) -----

30.1	(Increase) / decrease in current assets		
	Stock-in-trade	(9,548,404)	(11,718,698)
	Trade debts	(4,586,707)	33,101,396
	Loans and advances	(435,108)	(214,593)
	Trade deposits and short-term prepayments	(2,037,094)	(394,589)
	Other receivables	(1,698,322)	1,771,690
		(18,305,635)	22,545,206
30.2	Increase in current liabilities		
	Trade and other payables	4,435,293	4,047,829

31. FINANCIAL INSTRUMENTS RELATED DISCLOSURES

31.1 Capital management

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2008 and 30 June 2007.

As of the balance sheet date, the management considers that the capital of the Company is sufficient to meet the requirement of the business.

31.2 Interest / mark-up rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest rates. The Company manages this risk through risk management strategies. Interest rate risk of the Company's financial assets and financial liabilities can be evaluated from the following schedule:

	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
------(Rupees)-----							
Financial Assets							
Long-term deposits	-	-	-	-	698,925	698,925	698,925
Trade debts	-	-	-	93,720,344	-	93,720,344	93,720,344
Loans and advances	-	-	-	1,811,562	-	1,811,562	1,811,562
Other receivables	-	-	-	1,709,186	-	1,709,186	1,709,186
Cash and bank balances	2,427,008	-	2,427,008	2,020,616	-	2,020,616	4,447,624
2008	2,427,008	-	2,427,008	99,261,708	698,925	99,960,633	102,387,641
Financial Liabilities							
Trade and other payables	-	-	-	16,375,531	-	16,375,531	16,375,531
Murabaha	124,205,665	-	124,205,665	-	-	-	124,205,665
2008	124,205,665	-	124,205,665	16,375,531	-	16,375,531	140,581,196
Off Balance Sheet Items							
Acceptances and letter of credit	-	-	-	15,327,597	-	15,327,597	15,327,597
2008	-	-	-	15,327,597	-	15,327,597	15,327,597
------(Rupees)-----							
	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
------(Rupees)-----							
Financial Assets							
Long-term deposits	-	-	-	-	472,525	472,525	472,525
Trade debts	-	-	-	89,133,640	-	89,133,640	89,133,640
Loans and advances	-	-	-	1,313,454	-	1,313,454	1,313,454
Trade deposits	-	-	-	300,000	-	300,000	300,000
Other receivables	-	-	-	328,341	-	328,341	328,341
Cash and bank balances	8,823,931	-	8,823,931	6,504,988	-	6,504,988	15,328,919
2007	8,823,931	-	8,823,931	97,580,423	472,525	98,052,948	106,876,879
Financial Liabilities							
Trade and other payables	-	-	-	12,169,523	-	12,169,523	12,169,523
Murabaha	128,916,644	19,365,166	148,281,810	-	-	-	148,281,810
2007	128,916,644	19,365,166	148,281,810	12,169,523	-	12,169,523	160,451,333
Off Balance Sheet Items							
Acceptances and letter of credit	-	-	-	7,964,490	-	7,964,490	7,964,490
2007	-	-	-	7,964,490	-	7,964,490	7,964,490

Interest / mark-up rates applicable on financial assets and financial liabilities have been disclosed in respective notes to the financial statements.

31.3 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities are estimated to approximate their fair values.

31.4 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company's receivables are not subject to any significant credit risk because of effective credit policies.

31.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

31.6 Currency risk and foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company has no foreign currency and foreign exchange risk as payment is made immediately when invoice is received and LC at sight is opened.

32. SEGMENTAL INFORMATION

For financial reporting purposes the company has identified two major business segments:

- Textile - principally engaged in the manufacturing and sale of man-made blended yarn.
- Cold storage - principally providing cold storage services.

	Textile	Cold storage	Total
Segmental information for the year ended June 30, 2008	----- (Rupees) -----		
REVENUE			
External Sales	<u>385,831,810</u>	<u>48,755,598</u>	<u>434,587,408</u>
RESULTS			
Segment results	(4,073,048)	11,167,907	7,094,859
Profit on saving account			141,360
Income taxes			(5,066,492)
Profit			<u>2,169,727</u>
OTHER INFORMATIONS			
Segment assets	187,029,684	122,962,064	309,991,748
Unallocated assets			<u>49,743,791</u>
Total assets			<u>359,735,539</u>
Segment liabilities	117,533,271	21,128,316	138,661,587
Unallocated liabilities			<u>23,283,728</u>
Total liabilities			<u>161,945,315</u>
Capital expenditure	2,924,795	18,493,001	<u>21,417,796</u>
Depreciation	13,712,592	9,519,442	<u>23,232,034</u>

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 08, 2008 by the Board of Directors of the Company.

34. DIVIDEND AND APPROPRIATIONS

Subsequent to the year ended June 30, 2008, the Board of Directors have approved / proposed the following in their meeting held on September 08, 2008 for the approval of the members at the Annual General Meeting:

	2008	2007
	----- (Rupees) -----	
Proposed final dividend @ Rs.1/- per share (10%) (2007: Nil)	5,500,000	-

35. GENERAL

Amounts have been rounded off to the nearest rupee.

(Mohammed Younus Nawab)
Chief Executive

(Mohammed Irfan Nawab)
Director

(Abdul Hussain Antaria)
Chief Financial Officer