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**COMPANY INFORMATION**

<b>BOARD OF DIRECTORS</b>	:	A. RAZAK HAJI SATTAR (Chairman) HAMID HAJI LATIF HANIYA ASIF JUNAID HAJI LATIF MUSTAFA A. RAZAK MURTAZA A. RAZAK MUHAMMAD ASIF A. GHAFAR (Chief Executive)
<b>CHIEF FINANCIAL OFFICER (CFO)</b>	:	MUHAMMAD HANIF
<b>COMPANY SECRETARY</b>	:	RAUF DAWOOD
<b>AUDIT COMMITTEE</b>	:	JUNAID HAJI LATIF - Chairman HAMID HAJI LATIF - Member HANIYA ASIF - Member
<b>REGISTERED OFFICE</b>	:	H-23/4-A LANDHI, KARACHI.
<b>MILLS</b>	:	H-23/4-A LANDHI, KARACHI.
<b>SHARES DEPARTMENT</b>	:	177-A, S.M.C.H.S., KARACHI.
<b>BANKERS</b>	:	HABIB BANK LIMITED BANK AL HABIB LIMITED ASKARI COMMERCIAL BANK LIMITED UNION BANK LIMITED HABIB BANK AG ZURICH BANK ALFALAH LIMITED ABN AMRO BANK N.V.
<b>AUDITORS</b>	:	KHALID MAJID RAHMAN SARFARAZ RAHIM IQBAL RAFIQ Chartered Accountants 180-A, S.M.C.H.S., KARACHI.
<b>LEGAL ADVISOR</b>	:	M. ADAM PATEL & CO.



**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given to the Members that the 34th Annual General Meeting of the shareholders of **NAKSHBANDI INDUSTRIES LIMITED** will be held at the Registered Office of the Company at H-23/4A, Landhi Industrial Area, Karachi, on Tuesday, October 31, 2006 at 2:30 p.m. to transact the following business :

1. To receive, consider and adopt the Directors' Report, Audited Accounts of the Company and Auditors Report thereon for the year ended June 30, 2006.
2. To appoint Auditors for the Year 2006-2007 and fix their remuneration.
3. To transact any other ordinary business with the permission of the Chair.

By Order of the Board

**RAUF DAWOOD**

Company Secretary

Karachi : September 30, 2006

**NOTES :**

1. The Share Transfer Books of the Company will remain closed from October 26, 2006 to November 4, 2006 (both days inclusive).
2. A member eligible to attend and vote at this meeting may appoint another member as his /her proxy. Proxies in order to be effective must be received by the Company at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.
3. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited must bring their Original Card (CNIC) or Original Passport at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the CNIC or the Passport of the beneficial owners. Representative of corporate members should bring the usual documents required for such purpose.
4. A Proxy must be a member of the Company.
5. Shareholders are requested to immediately notify the change of address if any.



**DIRECTORS' REPORT**

Your Directors are presenting the 34th Annual Report together with the audited financial statements of the Company for the year ended June 30, 2006.

<b>FINANCIAL RESULTS</b>	<b>Rupees</b>
Loss before taxation (after charging depreciation of Rs. 134,551,286)	(74,977,698)
Provision for taxation	(21,000,000)
Loss after taxation	<u>(95,977,698)</u>
Accumulated Profit brought forward	457,609
Transfer from General Reserve	58,000,000
Accumulated Loss carried forward	<u><u>(37,520,089)</u></u>

Despite the efforts to utilize the capacity in order to achieve quantitative sales targets, the Company's bottom line ended with a loss, the main reasons being increase in input costs including raw materials, packing materials, water and gas charges together with sharp rise in financial costs. Being export oriented company, the increased costs cannot be passed on to the customers due to long term commitments in the present global competitive environments.

**EARNING PER SHARE**

Earning per share (EPS) is Rs. 3.47 (minus), being negative due to loss for the year.

**ECONOMIC OUTLOOK**

The news of cotton crop this year is not encouraging that may push the prices of the commodity further upwards. Other inflationary factors are also active. The economic growth may thus be hampered. Though the government has come to support the value added textile sectors through measures like encouraging research and development in order to improve product quality and swapping loans obtained from January 2003 onwards from commercial banks for import of machinery with fixed priced loan from State Bank of Pakistan, the measures relatively seem insufficient in the present scenario. Much is needed from the government side to achieve a sustainable position.

**FUTURE PROSPECTS**

Although we are striving to improve the profitability by strengthening the diversified customer base on one hand and managing input costs through higher efficiency levels on the other, we do not expect to achieve the desired profitability level in the immediate future due to continuous rise in cost of doing business domestically and falling prices of finished products of home textiles and towels in the international markets.



**CORPORATE GOVERNANCE**

The Statement of Compliance with the Best Practices of Code of Corporate Governance is annexed.

The directors have taken all necessary measures in order to comply with the Code of Corporate Governance in accordance with the listing rules of the stock exchange and state that:

- (a) The financial statements for the year ended June 30, 2006, prepared by the management of the Company, present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
- (b) The Company has maintained the proper books of accounts.
- (c) In preparation of the financial statements, appropriate accounting policies have been consistently applied and the accounting estimates are based on prudent judgment.
- (d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements, and the non-applicability, if any, has been adequately disclosed.
- (e) The sound system of internal controls has been effectively implemented and is being continuously monitored. The process of review will continue and any weaknesses in controls will be removed.
- (f) There are no significant doubts about the Company's ability to continue as a going concern.
- (g) There is no material departure from the best practices of corporate governance as defined in the listing regulations of the stock exchange.
- (h) There are no outstanding dues on account of taxes, levies and charges except of a normal and routine nature.
- (i) During the year, none of the Directors, CEO, CFO, Company Secretary and their spouse and minor children has traded in the shares of the Company.

Key operating and financial data for the last six years in a summarized form is annexed.

The present Audit Committee comprises of:

- 1 Mr. Junaid Haji Latif (Chairman).
- 2 Mr. Hamid Haji Latif.
- 3 Ms. Haniya Asif

The Audit Committee held four meetings during the year.



**BOARD OF DIRECTORS**

The last election of the Board of Directors was held on March 31, 2005 for a term of three years. During the year, Mr. Ashfaq Ahmed A. Ghaffar resigned and was replaced by Ms. Haniya Asif. The Board welcomes Ms. Haniya Asif as new Director and appreciates the contribution of the outgoing Director Mr. Ashfaq Ahmed A. Ghaffar.

Four meetings of Board of Directors were held during the year. Attendance by the directors is as follows:

<u>DIRECTORS</u>	<u>ATTENDANCE</u>
Mr. A. Razak Haji Sattar (Chairman)	2
Mr. Hamid Haji Latif	4
Mr. Junaid Haji Latif	3
Mr. Ashfaq Ahmed A. Ghaffar	1
Ms. Haniya Asif	1
Mr. Mustafa A. Razak	3
Mr. Murtaza A. Razak	4
Mr. Muhammad Asif A. Ghaffar (Chief Executive)	3

Leaves of absence were granted to the directors who could not attend the Board meeting.

**AUDITORS**

The auditors M/s Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, retire at the forthcoming Annual General Meeting of the Company to be held on October 31, 2006, and, being eligible, offer themselves for reappointment.

**PATTERN OF SHAREHOLDING**

The pattern of shareholding as on June 30, 2006 prepared in accordance with the requirements of the Code of Corporate Governance is annexed to this report.

For and on behalf of the Board

**A. RAZAK HAJI SATTAR**  
Chairman

Karachi:

Dated : September 30, 2006 .



## MISSION STATEMENT

Our mission is to manage and operate the Company in a manner that allows continued growth and profitability without high risk for investors, customers or employees. We do this by offering quality products to our customers, by constantly striving to improve our products to meet or exceed our customers' needs, allowing us to prosper as a business, and to provide stable, secure income and employment for our employees and a reasonable return for our stake holders, the owners of our business.

## VISION STATEMENT

The future of our Industry will be characterized by tough competition. In future, we will be constrained of capacity utilization, tough and sluggish market and rising cost but we will strive hard to be able to make profit and thus create value for our stake holders and to continue as a successful company.



YEAR WISE STATISTICAL SUMMARY

Year Ended June/September 30,	2006	2005	2004	2003	2002	2001
<b>TOWEL PRODUCTION SUMMARY</b>						
Towel (Kgs, 000)	4,666.00	3,664.00	4,979.00	2,894.00	1,695.00	1,487.00
<b>CLOTH PRODUCTION SUMMARY</b>						
Cloth (Sq.mtr, 000)	—	—	—	—	1,381.00	3,834.00
<b>ASSETS EMPLOYED</b>						
	(Rs. in million)					
Fixed Assets	1,680.23	1,349.56	1,091.77	1,037.16	1,052.54	687.38
Investments, Long term						
Advances and Deposits	3.70	1.76	0.38	0.45	0.27	0.27
Current Assets	1,082.71	1,073.31	1,287.79	1,091.53	798.80	659.93
<b>Total Assets Employed</b>	<b>2,766.64</b>	<b>2,424.63</b>	<b>2,379.94</b>	<b>2,129.14</b>	<b>1,851.61</b>	<b>1,347.58</b>
<b>FINANCED BY</b>						
Shareholders' Equity	516.63	467.36	478.70	377.49	429.41	429.71
Surplus on revaluation property	338.44	0.00	0.00	0.00	0.00	0.00
Long Term Liabilities	328.95	518.85	580.01	500.50	510.00	167.38
Obligation under Finance Lease	19.50	1.64	2.52	13.09	25.39	30.41
Deferred Liabilities	21.29	17.31	33.11	32.88	36.74	36.86
Current Liabilities	1,541.83	1,419.47	1,285.60	1,205.18	850.07	683.21
<b>Total Funds Invested</b>	<b>2,766.64</b>	<b>2,424.63</b>	<b>2,379.94</b>	<b>2,129.14</b>	<b>1,851.61</b>	<b>1,347.57</b>
<b>TURNOVER &amp; PROFIT</b>						
Turnover (Net)	1,938.45	1,335.42	1,991.87	1,147.10	1,094.98	1,185.62
Gross Profit	215.83	176.28	242.51	145.87	196.45	200.91
Operating Profit	70.13	65.24	79.21	40.68	102.41	107.25
(Loss)/Profit Before Taxation	(74.98)	0.12	26.22	(49.77)	19.22	36.54
(Loss)/Profit After Taxation	95.98	(11.33)	10.69	(51.67)	8.77	26.44
Dividend	0.00	0.25	0.25	0.25	9.08	13.62
Transfer (from)/to Reserves	0.00	(11.00)	10.00	(51.00)	0.00	12.00
(Loss)/Profit C/F	(37.52)	0.46	0.79	0.35	1.28	1.58
<b>Financial Charges</b>	<b>144.31</b>	<b>65.10</b>	<b>52.03</b>	<b>90.46</b>	<b>83.31</b>	<b>68.71</b>
<b>(Loss)/Earning per share</b>	<b>(3.47)</b>	<b>(0.47)</b>	<b>0.45</b>	<b>(2.85)</b>	<b>0.48</b>	<b>1.46</b>
<b>Breakup value of shares</b>						
	(Amount in Rupees)					
No. of Shares	33,889,586	24,207,040	24,207,040	18,155,280	18,155,280	18,155,280
Capital + Rev.Reserves	516,628,571	467,316,531	478,949,594	377,484,290	429,408,133	429,711,631
<b>Breakup Value</b>	<b>15.24</b>	<b>19.30</b>	<b>19.79</b>	<b>20.79</b>	<b>23.65</b>	<b>23.67</b>





**STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF  
CORPORATE GOVERNANCE**

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) Limited 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 interest on its Board of Directors. At present the Board includes at least 2 independent non-executive directors representing minority shareholders.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy that occurred in the Board on dated 27th October, 2005 were filled up by the director on the same day thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a mission & vision 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 Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The Board arranged one orientation course for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than 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 3 members, all of them are non-executive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company 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.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of 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 others 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  
**MUHAMMAD ASIF A.GHAFFAR**  
Chief Executive

Karachi:

Dated : September 30, 2006.



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

As part of the audit of 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 internal 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 for the year ended June 30, 2006.

Karachi:  
Dated : September 30, 2006

**KHALID MAJID RAHMAN SARFARAZ**  
**RAHIM IQBAL RAFIQ**  
Chartered Accountants



**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of **NAKSHBANDI INDUSTRIES LIMITED** as at **June 30, 2006**, and the related profit & 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that;

- (a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the changes referred in note 3.1 with which we concur
  - 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 & 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, 2006** and of the Loss, its cash flows and changes in equity for the year ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980, (XVII of 1980).

Karachi:

Dated : September 30, 2006

**KHALID MAJID RAHMAN SARFARAZ**  
**RAHIM IQBAL RAFIQ**  
Chartered Accountants



		<b>BALANCE SHEET AS AT</b>	
		June 30, 2 0 0 6	June 30, 2 0 0 5
		Rupees	Rupees
NOTE			
<b>SHARE CAPITAL &amp; RESERVES</b>			
<b>Authorised Capital</b>			
50,000,000 Ordinary Shares (2005 : 30,000,000)			
of Rs. 10/- each		500,000,000	300,000,000
<b>Issued, Subscribed and Paid - up Capital</b>	4	338,898,560	242,070,400
<b>Reserves</b>	5	215,250,100	224,836,020
<b>Accumulated (Loss)/Profit</b>		(37,520,089)	457,609
		516,628,571	467,364,029
<b>Surplus on revaluation property</b>	6	338,441,900	—
<b>NON-CURRENT LIABILITIES</b>			
Long term loans	7	328,950,000	508,850,000
Liability against assets subject to finance lease	8	19,498,272	1,637,231
Deferred liabilities	9	21,286,506	17,312,738
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	294,155,374	295,885,620
Accrued interest/mark-up	11	36,088,365	23,904,315
Short term borrowing	12	974,559,755	907,976,825
Current portion of long term liabilities	13	216,026,259	174,051,679
Taxation		21,000,000	27,650,000
		1,541,829,753	1,429,468,439
<b>CONTINGENCIES AND COMMITMENTS</b>	14	—	—
		2,766,635,002	2,424,632,437

The annexed notes from 1 to 41 form an integral part of these financial statements.



# NAKSHBANDI INDUSTRIES LIMITED

30TH JUNE, 2006

	NOTE	June 30, 2006 Rupees	June 30, 2005 Rupees
<b>FIXED ASSETS</b>			
PROPERTY, PLANT AND EQUIPMENT	15	1,680,229,579	1,349,560,023
LONG TERM DEPOSITS		3,699,320	1,758,520
<b>CURRENT ASSETS</b>			
Stores, spares and chemicals	16	189,591,041	184,880,751
Stock-in-trade	17	694,993,148	560,259,319
Trade debts	18	80,201,360	126,781,825
Loans and advances	19	54,643,358	69,152,238
Short term prepayments	20	9,000,659	14,273,015
Other receivables	21	31,606,793	81,684,012
Taxation recoverable		17,932,755	24,087,096
Cash and bank balances	22	4,736,989	12,195,638
		1,082,706,103	1,073,313,894
		<u>2,766,635,002</u>	<u>2,424,632,437</u>

MUHAMMAD ASIF A. GHAFFAR  
Chief Executive

MURTAZA A. RAZAK  
Director



PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2006

	NOTE	For year ended June 30, 2006 Rupees	For nine months June 30, 2005 Rupees
Sales	23	1,938,453,103	1,335,417,800
Cost of sales	24	(1,722,624,671)	(1,161,004,136)
<b>Gross profit</b>		<b>215,828,432</b>	<b>174,413,664</b>
<b>Operating expenses</b>			
General & administrative expenses	25	(50,209,943)	(32,528,055)
Selling expenses	26	(95,488,912)	(75,929,630)
		(145,698,855)	(108,457,685)
<b>Operating profit</b>		<b>70,129,577</b>	<b>65,955,979</b>
Financial charges	27	(144,313,815)	(65,099,038)
Other operating charges	28	(793,460)	(682,948)
Workers' profit participation fund		—	(8,700)
		(145,107,275)	(65,790,686)
<b>(Loss)/Profit before taxation</b>		<b>(74,977,698)</b>	<b>165,293</b>
Provision for taxation			
- Current year's	29	(21,000,000)	(11,500,000)
<b>(Loss) after taxation</b>		<b>(95,977,698)</b>	<b>(11,334,707)</b>
<b>(Loss) per share</b>	30	<b>(3.47)</b>	<b>(0.45)</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

MUHAMMAD ASIF A. GHAFFAR  
Chief Executive

MURTAZA A. RAZAK  
Director



**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2006**

	For year ended June 30, 2006 Rupees	For nine months June 30, 2005 Rupees
<b>CASH FROM OPERATING ACTIVITIES</b>		
Net (Loss)/Profit before taxation	(74,977,698)	165,293
Adjustment For :		
Depreciation	134,551,285	97,355,537
Deferred liabilities	5,622,343	3,997,351
Financial Charges	144,313,815	65,099,038
Loss on sales of fixed assets	11,960	13,061
	<b>284,499,403</b>	<b>166,464,987</b>
<b>Cash flow from operating activities before working capital changes</b>	<b>209,521,705</b>	<b>166,630,280</b>
<b>(Increase)/Decrease in Current Assets</b>		
Stores and spares	(4,710,290)	1,590,411
Stock-in-trade	(134,733,829)	(51,412,459)
Trade debtors	46,580,465	178,009,537
Loans and advances	14,508,879	96,103,502
Short term prepayments	5,272,357	5,625,823
Other receivables	50,077,218	1,324,023
<b>Increase/(Decrease) in Current Liabilities</b>		
Trade and other payables	(1,730,245)	10,510,910
Accrued mark-up on finances	-	16,962,483
	<b>(24,735,445)</b>	<b>258,714,232</b>
<b>Cash generated from operating activities</b>	<b>184,786,260</b>	<b>425,344,512</b>
Gratuity paid	(1,648,575)	(19,795,785)
Financial Charges Paid	(132,112,264)	(48,136,555)
Dividend Paid	-	(215,641)
Income Tax Paid	(21,495,659)	(11,592,650)
	<b>(155,256,498)</b>	<b>(79,740,631)</b>
<b>Net cash from operating activities</b>	<b>29,529,762</b>	<b>345,603,881</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed Capital Expenditure	(114,548,472)	(356,463,039)
Sale Proceeds of Fixed Assets	2,763,000	1,302,000
Long Term Deposits	(1,940,800)	(1,379,415)
<b>Net cash used in Investing Activities</b>	<b>(113,726,272)</b>	<b>(356,540,454)</b>





	For year ended June 30, 2 0 0 6 Rupees	For nine months June 30, 2 0 0 5 Rupees
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Right Issue of shares at Premium	145,242,240	—
Long term loans disbursements	12,000,000	72,990,000
Obligation under finance lease disbursements	13,137,070	—
Repayment of Long Term Loans	(156,600,000)	(110,750,000)
Repayment of Finance Lease	(3,624,379)	(9,815,116)
<b>Net Cash from financing Activities</b>	<b>10,154,931</b>	<b>(47,575,116)</b>
<b>Net (Decrease)/Increase in Cash and Cash Equivalent</b>	<b>(74,041,579)</b>	<b>(58,511,689)</b>
Cash and cash equivalent at the beginning	(895,781,187)	(837,269,498)
Cash and cash equivalent at the end	(969,822,766)	(895,781,187)
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and bank balance	4,736,989	12,195,638
Short Term Borrowing	(974,559,755)	(907,976,825)
	(969,822,766)	(895,781,187)

The annexed notes from 1 to 41 form an integral part of these financial statements.

MUHAMMAD ASIF A. GHAFAR  
Chief Executive

MURTAZA A. RAZAK  
Director



STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2006

	Share Capital Rupees	Reserves Rupees	Accumulated Profit/(Loss) Rupees	Total Rupees
Balance as at October 1, 2004	242,070,400	235,836,020	1,043,174	478,949,594
Dividend paid	—	—	(250,858)	(250,858)
(Loss) for the period ended	—	—	(11,334,707)	(11,334,707)
Transfer from general reserve	—	(11,000,000)	11,000,000	—
<b>Balance as at June 30, 2005</b>	<b>242,070,400</b>	<b>224,836,020</b>	<b>457,609</b>	<b>467,364,029</b>
Issue of right shares	96,828,160	—	—	96,828,160
Premium of right shares	—	48,414,080	—	48,414,080
(Loss) for the year ended	—	—	(95,977,698)	(95,977,698)
Transfer from general reserve	—	(58,000,000)	58,000,000	—
<b>Balance as at June 30, 2006</b>	<b>338,898,560</b>	<b>215,250,100</b>	<b>(37,520,089)</b>	<b>516,628,571</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

MUHAMMAD ASIF A. GHAFAR  
Chief Executive

MURTAZA A. RAZAK  
Director



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**1 STATUS AND NATURE OF BUSINESS**

The Company was incorporated in Pakistan as a public limited company and is quoted on Karachi Stock Exchange. And its registered office is situated in H-23/4-A Landhi, Karachi. It is principally engaged in production and export of towels and fabrics.

**2 STATEMENT OF COMPLIANCE**

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

**Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

Following amendments to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2006 or later periods:

- |     |  |                                |
|-----|--|--------------------------------|
| i   | IAS 19 (Amendments) - Employee Benefits  | effective from January 1, 2006 |
| ii  | IAS 39 Financial Instruments:<br>Recognition and Measurements -<br>Fair Value Option | effective from January 1, 2006 |
| iii | IAS 1 Presentation of Financial<br>Statements - Capital Disclosures                  | effective from January 1, 2006 |
| iv  | IFRIC 4 Determining whether an<br>Arrangement contains a Lease                       | effective from January 1, 2006 |

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**3.1 Accounting convention and basis of preparation**

These financial statements have been prepared under the historical cost convention except for the leasehold land, which is stated at revalued amount.

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amount of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experiences and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.



**3.2 Staff retirement benefits**

The Company operates an unfunded gratuity scheme. Provision for employees gratuity is made annually for employees eligible for such benefits. Company operates a provident fund for employees with a gross salary of Rs ,9,000. And above. Equal contribution @ 8.33% of basic salary per month.

**3.3 Provisions**

Provision are recognized when the company has a present legal or constructive obligation as a result of past event 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 obligation can be made.

**3.4 Taxation**

Provision for taxation is based on applicable tax laws at the current rates of taxation. Presently provision for current taxation is based on final tax regime in accordance with the provisions of section 154 of the Income Tax Ordinance, 2001.

**3.5 Property, plant and equipment**

**Owned**

Operating assets are stated at cost less accumulated depreciation except for leasehold land which is stated at revalued amount.

Depreciation is charged to profit and loss account by applying reducing balance method.

Full year's depreciation is charged on addition during the year whereas no depreciation is charged on assets disposed during the year.

Normal repair and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

Gain and losses on disposal of fixed assets are taken to profit and loss account.

**Leased**

These are stated at the lower of present value of minimum lease payment under the lease agreement and the fair value of assets acquired on lease. Aggregate amount of obligation relating to assets subject to finance lease is accounted for at net present value of liabilities.

Amortization of leased assets is charged to current year's income as part of depreciation on the rate and basis used for owned assets.

Lease finance charge is allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

**Capital work in progress**

Cost and expenditure connected with specific assets incurred during the implementation period is carried under this head. These are transferred to fixed assets as and when assets are available for use.

**3.6 Impairment of assets**

In accordance with IAS-36 assets are reviewed for impairment whenever events or changes



in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of these assets exceed their recoverable amount, an impairment loss is recognized in the profit and loss account.

### **3.7 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognized at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to profit and loss account currently.

### **3.8 Stores, spares and chemicals**

Stores, spares and chemicals are valued at the lower of cost determined on the moving average method and net realizable value except for items in transit which are valued at cost comprising invoice value and other charges incurred thereon.

### **3.9 Stock-in-trade**

Raw materials are valued at average cost and finished goods are valued at lower of average cost and net realizable value.

Work-in-process is valued at average cost of raw-materials including a proportionate of manufacturing overheads.

Waste products are valued at market rates.

### **3.10 Trade debts**

Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

### **3.11 Cash & cash equivalent**

Cash and cash equivalent comprises cash and bank balances. Short term running finances that are payable on demand and form an integral part of the Company's cash management are included as a component of cash equivalents for a purpose of the statement of cash flows.

### **3.12 Revenue recognition**

Sales are recorded on dispatch of goods to buyers.

### **3.13 Borrowing cost**

Borrowing cost incurred upto the date of commencement of commercial production are capitalized. All other borrowing cost are recognized as expenses in the year in which there are incurred.

### **3.14 Foreign currencies**

Assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the year end except where exchange risk cover has been obtained for repayment of liabilities in which case rate contracted for, is used. All other exchange differences are taken to profit and loss account.



**3.15 Related party transactions**

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transaction using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the company to do so.

	June 30, 2006 Rupees	June 30, 2005 Rupees
<b>4 ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL</b>		
17,296,260 Ordinary shares of Rs.10/- each fully paid-up in cash	172,962,600	172,962,600
6,051,760 Ordinary shares of Rs.10/-each issued as fully paid right shares at premium of Rs. 5 per share	60,517,600	60,517,600
859,020 Ordinary shares of Rs.10/-each issued as bonus shares	8,590,200	8,590,200
9,682,816 Ordinary shares of Rs.10/-each issued as fully paid right shares at premium of Rs. 5 per share	96,828,160	—
<b>33,889,856</b>	<b>338,898,560</b>	<b>242,070,400</b>
<b>5 RESERVES</b>		
<b>General Reserve</b>		
Opening Balance	58,000,000	69,000,000
Less: Transfer to Profit & Loss Account	(58,000,000)	(11,000,000)
	—	58,000,000
<b>Capital Reserve</b>		
Share Premium	166,836,020	166,836,020
Add: Premium on Right Issue during the year	48,414,080	—
	215,250,100	166,836,020
	215,250,100	224,836,020
<b>6 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>		
The revaluation was done by M/s Iqbal A. Nanji & Company ( an approved valuer from Pakistan Bankers Association ) on December 31, 2005.		
<b>Basis of Revaluation</b>		
Land rates are based on local market and used to arrive at the present value.		



# NAKSHBANDI INDUSTRIES LIMITED

## 7. LONG TERM LOANS - Secured

PARTICULARS	Bank Al-Habib Limited					Union Bank Ltd.
	Loan No. 2	Loan No. 3	Loan No. 4	Loan No. 5	Loan No. 6	Loan No. 1
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Opening balance as on July 01, 2005	50,000,000	52,500,000	90,000,000	100,000,000	—	105,000,000
Obtained during the year	—	—	—	—	12,000,000	—
Outstanding balance	50,000,000	52,500,000	90,000,000	100,000,000	12,000,000	105,000,000
Repaid during the year	20,000,000	15,000,000	20,000,000	10,000,000	3,000,000	15,000,000
	30,000,000	37,500,000	70,000,000	90,000,000	9,000,000	90,000,000
<b>Current Portion</b>						
Over dues	—	—	—	—	—	15,000,000
Current Maturity	20,000,000	15,000,000	20,000,000	20,000,000	6,000,000	30,000,000
	20,000,000	15,000,000	20,000,000	20,000,000	6,000,000	45,000,000
<b>Closing balance</b>	<b>10,000,000</b>	<b>22,500,000</b>	<b>50,000,000</b>	<b>70,000,000</b>	<b>3,000,000</b>	<b>45,000,000</b>

### Significant terms and conditions:

Date of disbursement	17-Feb-01 17-Feb-01 12-Mar-01 20-Aug-01 19-Oct-01	09-Aug-02	19-Dec-03	18-Sep-04 03-Dec-04 17-Dec-04 05-Jan-05 13-Jan-05 18-Jan-05	21-Sep-05	31-Dec 02
Amount of disbursements	3,076,315 74,334 49,154,000 3,800,000 43,895,351	75,000,000	100,000,000	27,010,000 5,150,000 27,720,000 3,850,000 23,645,000 12,625,000	12,000,000	150,000,000
Installments	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half yearly	Half yearly
No. of installment	10	10	10	10	4	10
Installment amount (Rupees)	10,000,000	7,500,000	10,000,000	10,000,000	3,000,000	15,000,000
Repayment date	19-Mar-03	09-Mar-04	19-Jun-05	15-Apr-06	22-Mar-06	01-July-04
Rate of mark up per 1000 per day	6 Months TBill + 2%			12 Months KIBOR +1.50%		6 Months TBill +1.50%

Securities

Pari-Passu charge and equitable mortgage of the fixed assets of the Company.



# NAKSHBANDI INDUSTRIES LIMITED

Bank Alfalah Limited							Habib Bank Ltd	Askari Com. Bank Ltd.	Total	
Loan No. 1	Loan No. 2	Loan No. 3	Loan No. 4	Loan No. 5	Loan No. 6	Loan No. 7	Loan No. 3	Loan No. 1	2006	2005
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
40,000,000	16,400,000	11,250,000	13,500,000	12,600,000	22,500,000	33,000,000	75,000,000	60,000,000	681,750,000	719,510,000
-	-	-	-	-	-	-	-	-	12,000,000	72,990,000
40,000,000	16,400,000	11,250,000	13,500,000	12,600,000	22,500,000	33,000,000	75,000,000	60,000,000	693,750,000	792,500,000
10,000,000	2,050,000	2,500,000	3,000,000	2,800,000	2,250,000	6,000,000	25,000,000	20,000,000	156,600,000	110,750,000
30,000,000	14,350,000	8,750,000	10,500,000	9,800,000	20,250,000	27,000,000	50,000,000	40,000,000	537,150,000	681,750,000
-	2,050,000	-	-	-	2,250,000	-	-	-	19,300,000	-
10,000,000	4,100,000	2,500,000	3,000,000	2,800,000	4,500,000	6,000,000	25,000,000	20,000,000	188,900,000	172,900,000
10,000,000	6,150,000	2,500,000	3,000,000	2,800,000	6,750,000	6,000,000	25,000,000	20,000,000	208,200,000	172,900,000
<b>20,000,000</b>	<b>8,200,000</b>	<b>6,250,000</b>	<b>7,500,000</b>	<b>7,000,000</b>	<b>13,500,000</b>	<b>21,000,000</b>	<b>25,000,000</b>	<b>20,000,000</b>	<b>328,950,000</b>	<b>508,850,000</b>

07-Feb-03	20-Jun-03	15-Aug-03	04-Oct-03	02-Jan-04	12-May-04	23-Sep-04	11-Feb-02 14-Mar-02 05-Jul-02 12-Jul-02 08-Aug-02	22-Jan-02 27-Feb-02 18-Apr-02
50,000,000	20,500,000	12,500,000	15,000,000	14,000,000	27,000,000	36,000,000	4,500,000 105,313,000 4,522,668 8,700,000 1,964,332	33,785,000 14,391,600 51,823,400
Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly
10	10	10	10	10	12	12	10	10
5,000,000	2,050,000	1,250,000	1,500,000	1,400,000	2,250,000	3,000,000	12,500,000	10,000,000
06-Aug-04	19-Dec-04	14-Feb-05	03-Apr-05	02-Jan-05	11-Nov-05	22-Mar-04	08-Mar-04	22-Jul-03

3 Month KIBOR + 1.5%	6 Month KIBOR + 1.75%	6 Month TBill + 2%
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	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>8 LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		
Obtained during the year	28,160,000	—
Repaid during the year	(3,624,379)	(9,815,116)
	<u>24,535,621</u>	<u>(9,815,116)</u>
Transfer to current portion	(7,826,259)	(1,151,679)
	<u>16,709,362</u>	<u>(10,966,795)</u>

Future minimum lease payment under finance lease and the present value of the minimum lease payment are as follows :

	2006		2005	
	Minimum Lease Payments Rupees	Present Value Rupees	Minimum Lease Payments Rupees	Present Value Rupees
Within one year	7,826,259	7,826,259	1,151,679	1,151,679
After one year but not more than five years	24,279,665	19,498,272	2,466,069	1,637,231
Total minimum lease payments	<u>32,105,924</u>	<u>27,324,531</u>	<u>3,617,748</u>	<u>2,788,910</u>
Less : Amount representing financial charges	(4,781,393)	—	(828,838)	—
Present value of minimum lease payment	<u>27,324,531</u>	<u>27,324,531</u>	<u>2,788,910</u>	<u>2,788,910</u>
Less : Current portion	(7,826,259)	(7,826,259)	(1,151,679)	(1,151,679)
	<u>19,498,272</u>	<u>19,498,272</u>	<u>1,637,231</u>	<u>1,637,231</u>

These represents finance lease entered into with leasing companies for plant and machinery and vehicles. Rates of financial charges ranging from 10.49% to 14% (2005 : 9% to 16.50%) per annum are used discounting factors. The lease terms varies from 3 years.

The Company intends to exercise the option to purchase the leased assets upon completion of the leased periods.

These are secured against demand promissory notes.



**8.1 Significant terms and conditions - Finance Lease**

Description	Lease Key	Implicit Rate of Interest %age	Lease Rentals (Rupees)	No of installments	Frequency of installment	Date of first installment
<b>Plant &amp; Machinery</b>						
Megatern Hemming Machine	-	13.50	581,560	11	Quarterly	July 25, 2006
Fong's High Temperature Package Dyeing Machine	-	14.00	1,278,030	12	Quarterly	August 20, 2006
<b>Vehicles</b>						
Suzuki Cultus AKN-893	55,500	10.49	16,253	36	Monthly	January 1, 2006
Suzuki Cultus AKN-895	55,500	10.49	16,253	36	Monthly	January 1, 2006
Suzuki Cultus AKN-897	55,500	10.49	16,253	36	Monthly	January 1, 2006
Suzuki Cultus AKN-901	55,500	10.49	16,253	36	Monthly	January 1, 2006
Suzuki Mehran AKN-892	31,500	10.49	8,994	36	Monthly	January 1, 2006
Suzuki Mehran AKR-804	31,500	10.49	8,994	36	Monthly	January 1, 2006
Suzuki Mehran AKR-809	31,500	10.49	8,994	36	Monthly	January 1, 2006
Suzuki Mehran AKR-810	31,500	10.49	8,994	36	Monthly	January 1, 2006
Suzuki Baleno AKG-467	74,900	11.36	21,646	36	Monthly	February 1, 2006
Suzuki Baleno AKG-468	74,900	11.36	21,646	36	Monthly	February 1, 2006
Suzuki Baleno AKG-983	74,900	11.36	21,646	36	Monthly	February 1, 2006
Suzuki Baleno AKJ-811	74,900	11.36	21,646	36	Monthly	February 1, 2006
Honda City (M/T) AKU-103	88,600	11.36	28,921	36	Monthly	February 1, 2006
Hyundai Shehzore KN-8952	64,900	11.36	15,403	36	Monthly	February 1, 2006
Mitsubishi Minibus-L300	114,900	10.87	33,488	36	Monthly	May 2, 2006
1 Suzuki Ravi Pickup CNG	34,400	10.87	10,026	36	Monthly	May 2, 2006
1 Suzuki Bolan CNG	40,400	10.87	11,775	36	Monthly	May 2, 2006

**8.2** No restriction has been imposed on the company under the lease arrangement.

	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>9 DEFERRED LIABILITIES</b>		
Gratuity	<u>21,286,506</u>	<u>17,312,738</u>
<b>10. TRADE AND OTHER PAYABLES</b>		
Creditors	274,230,482	255,814,962
Accrued Expenses	18,240,838	37,907,308
Unclaimed Dividend	212,428	212,428
Workers Profit Participation Fund	10.1 256,143	256,143
Right Shares Subscription	10.2 105,323	105,323
Others	1,110,160	1,589,456
	<u>294,155,374</u>	<u>295,885,620</u>



# NAKSHBANDI INDUSTRIES LIMITED

	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>10.1 Worker's Profit Participation Fund</b>		
Opening Balance	256,143	1,506,010
Add: Interest for year	-	121,606
5% contribution on current year's profit	-	8,700
	-	130,306
	256,143	1,636,316
Less: Payment during the year	-	1,380,173
Closing Balance	256,143	256,143
<b>10.2</b> This represent the balance refundable to applicants for right shares called but were over subsequently cancelled. The Security and Exchange Commission of Pakistan (formerly Corporate Law Authority), Islamabad granted permission in 1995 for cancellation of right issue vide their letter No. CIA/CI/457/90 dated April, 1995.		
Right shares subscription money	105,323	105,473
Less : Refund during the year	-	(150)
	105,323	105,323
<b>11. ACCRUED INTEREST/MARK-UP</b>		
Long-term finances	16,873,438	15,195,378
Short-term finances	19,214,927	8,708,937
	36,088,365	23,904,315
<b>12. SHORT TERM BORROWING - SECURED</b>		
<b>Export Refinance</b>		
- Bank Al-Habib Limited	250,000,000	250,000,000
- Habib Bank Limited	144,000,000	144,000,000
- Bank Alfalah Limited	80,000,000	60,000,000
- Askari Commercial Bank Limited	75,000,000	75,000,000
- Union Bank Limited	110,000,000	115,000,000
- ABN Amro Bank N.V.	70,000,000	70,000,000
- Citi Bank N.A.	-	50,000,000
- Habib Bank AG Zurich	70,000,000	-
	799,000,000	764,000,000
<b>Running / Short Term Finances</b>		
- Bank Al-Habib Limited	8,896,332	59,953,964
- Habib Bank Limited	21,229,493	13,772,870
- Bank Alfalah Limited	19,673,539	14,450,447
- Union Bank Limited	67,780,771	31,928,783
- ABN Amro Bank N.V.	28,521,261	23,870,761
- Habib Bank A.G Zurich	29,458,359	-
	175,559,755	143,976,825
	974,559,755	907,976,825



**12.1** This represents short term working capital finance facility of Rs. 975 Million (2005: Rs. 908 million) which is secured by pari passu charge by way of hypothecation of stock of stores and spares, cotton yarn, finished goods and export bills under collection and trade debts of the company. The rate of mark-up for running finance ranges between 9% to 12% per annum ( 2005 : 5% to 7%), and between 6% to 9% per annum ( 2005: 3% to 6%) for export refinance.

**12.2** Subsequent to 30th June 2006, Habib Bank Limited vide their offer letter dated September 15, 2006 has restructured working capital finance of Rs 144 million into a Term Loan of five years payable in equal monthly installments. Restructured term loan is priced at 1 month KIBOR +1.25% and is secured through pari passu equitable mortgage charge of Rs 340 million.

June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
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**13. CURRENT PORTION OF LONG TERM LIABILITIES**

Current maturity of long term loan	208,200,000	172,900,000
Current maturity of lease liabilities	7,826,259	1,151,679
	<u>216,026,259</u>	<u>174,051,679</u>

**14. CONTINGENCIES AND COMMITMENTS**

- (i) Guarantees issued by commercial banks on behalf of the company Rs. 37.264 million (2005: Rs. 37.264 million)
- (ii) Aggregate commitments for capital expenditure Rs. 25 million (2005: Rs. 50 million).
- (iii) Commitments for export against orders/letters of credit Rs. 500 million (2005: Rs. 450 million).

**15. PROPERTY, PLANT AND EQUIPMENT**

Operating Property, Plant & equipment	15.1	1,530,865,690	1,210,477,608
Capital work in progress	15.2	149,363,889	139,082,415
		<u>1,680,229,579</u>	<u>1,349,560,023</u>



**15.1 PROPERTY, PLANT AND EQUIPMENT**

Particulars	Cost				Depreciation					Written Down value as at June 30, 2006
	As on July 01, 2005	Additions/ (Disposals)	Surplus on Revaluation of Fixed Assets	As on June 30, 2006	Rate %	As on July 01, 2005	Adjustment	For the Period	As on June 30, 2006	
Leasehold land	39,758,100	—	312,341,900	352,100,000	—	—	—	—	—	352,100,000
Leasehold land Office	1,500,000	—	26,100,000	27,600,000	—	—	—	—	—	27,600,000
Building on leasehold land	313,180,097	3,753,433	—	316,933,530	10%	122,914,279	—	19,401,925	142,316,204	174,617,326
Office Bldg. on leasehold land	5,782,139	—	—	5,782,139	10%	4,023,031	—	175,911	4,198,942	1,583,197
Plant & machinery	1,487,675,732	88,420,986	—	1,576,096,718	10%	578,920,886	—	99,717,583	678,638,469	897,458,249
Electric fitting	33,385,550	4,262,369	—	37,647,919	10%	7,127,955	—	3,051,996	10,179,951	27,467,968
Office equipments	7,759,518	1,197,946	—	8,957,464	15%	5,008,146	—	592,398	5,600,544	3,356,920
Computers	14,631,540	3,917,558	—	18,549,098	30%	7,353,212	—	3,358,766	10,711,978	7,837,120
Furniture & Fixtures	15,972,191	1,504,220	—	17,476,411	10%	5,808,252	—	1,166,816	6,975,068	10,501,343
Vehicles	34,373,420	7,952,485 (8,627,240)	—	33,698,665	20%	16,477,957 (5,852,280)	3,309,797	3,952,638	17,888,112	15,810,553
	1,954,018,287	111,008,997 (8,627,240)	338,441,900	2,394,841,944		747,633,718 (5,852,280)	3,309,797	131,418,033	876,509,268	1,518,332,676
<b>Assets subject to finance Lease</b>										
Plant & machinery	—	5,862,930	—	5,862,930	20%	—	—	1,172,586	1,172,586	4,690,344
Vehicles	8,900,000	9,160,000 (6,742,000)	—	11,318,000	20%	4,824,461	(3,309,797)	1,960,667	3,475,331	7,842,669
	8,900,000	15,022,930 (6,742,000)	—	17,180,930		4,824,461	(3,309,797)	3,133,253	4,647,917	12,533,013
Total Rupees:2006	1,962,918,287	126,031,927 (15,369,240)	338,441,900	2,412,022,874		752,458,179 (5,852,280)	—	134,551,286	881,157,185	1,530,865,689
Total Rupees:2005	1,738,522,773	226,851,834 (2,438,820)	—	1,962,918,287		656,226,401 (1,123,759)	—	97,355,537	752,458,179	1,210,477,608

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

	<b>June 30, 2 0 0 6 Rupees</b>	<b>June 30, 2 0 0 5 Rupees</b>
- Cost of goods manufactured	<b>129,433,306</b>	95,260,063
- Administrative expenses	<b>5,117,980</b>	2,095,474
	<b>134,551,286</b>	97,355,537

During the period, the Company has changed depreciation rate on computers from 15% to 30%. The change is based on the rapid technological changes in the field of computing. Had the rate of depreciation not been changed, loss for the year would have been lower by Rs. 1,679,383.

Had there been no revaluation, the value of the assets would have been lower by Rs. 338,441,900. (see note # 6)



**15.1.1** Details of Disposal of Operating Fixed Assets during the period are as follows :

Particulars	Original Cost	Accumulated Depreciation/ Adjustment	W.D.V.	Selling Price	Gain/ (Loss) on Sales	Mode of Disposal	Name of Purchaser
<b>Motor Vehicles</b>							
Suzuki Margalla U-9460	425,000	323,387	101,613	135,000	33,387	Negotiation	Mr. Arsalan Rabbani S/o Ata Rabbani House # H-40 , Block 2, P.E.C.H.S Karachi
Suzuki Margalla AB-8385	595,000	377,123	217,877	275,000	57,123	Negotiation	Mr. Mir Afzal Khan s/o M. Ayub Khan House # D-120, Cantt Bazar, Malir Karachi
Suzuki Margalla ABK-682	607,000	391,971	215,029	175,000	(40,029)	Negotiation	Mr. Aslam S/o Soomar Somro, House #. R-228/A, Ali Muhammad Iqbal goth, Gulshan-e-Iqbal Block-6, Karachi.
Honda City ACK-526	760,000	524,595	235,405	225,000	(10,405)	Negotiation	Wasim Mirza S/o. Abdul Rahim Mirza House #. A-32, Block-19A, Gulshan-e-Iqbal, Karachi
Suzuki Baleno ABX-986	645,000	442,991	202,009	150,000	(52,009)	Negotiation	Furrukh Masood S/o. Maqsood Ahmed House # A-11, Ruffi World, Block-13-D/2, Gulshan-e-Iqbal, Karachi
Sohni Coach 27 Seater JE-9324	1,126,000	754,659	371,341	325,000	(46,341)	Negotiation	Filly Transport Services, A-1, Malik Naz Plaza, Shahrah-e-Faisal, Karachi
Suzuki Khyber ABV-131	372,240	291,091	81,149	110,000	28,851	Negotiation	Mr. Syed Junaid Ali S/o. Ashfaq Ali House #. B-51, Street #. 3, North Nazimabad, Block-L, Karachi.
Toyota Corolla ADS-363	849,000	485,632	363,368	425,000	61,632	Negotiation	Mr. Mudassar Akram S/o. Akram Bari House # A-88, Block 13 D-I, Gulshan-e-Iqbal, Karachi
Suzuki Mehran ACV-012	319,000	230,150	88,850	100,000	11,150	Negotiation	Mr. Irshad Ali S/o. Karimdad House #. 21, New Clifton, Karachi
Kia Classic ACS-322	475,000	342,699	132,301	85,000	(47,301)	Negotiation	Mr. Muhammad Ali s/o Mohd. Ahmad Irfan Manzil, House # S-2/4 Ramswami Karachi
Suzuki Mehran ACU-268	319,000	230,150	88,850	90,000	1,150	Negotiation	Furrukh Masood S/o. Maqsood Ahmed House # A-11, Ruffi Villas, Block-13-D/2, Gulshan-e-Iqbal, Karachi
Suzuki Cultus ADY-183	555,000	313,464	241,536	225,000	(16,536)	Negotiation	Mr. Habib Akhter S/o. Abdul Wasay Qureshi Flat #. B-1, Latif Plaza, Block-6 Gulshan-e-Iqbal, Karachi
Honda Civic ABD-666	1,089,000	785,683	303,317	350,000	46,683	Negotiation	Mr. Muhammad Shakir Tehseen Ali S/o. Muhammad Abdul Wahab 15/A-142, Defence Officers Colony, Hyderabad.
Kia Classic ACS-063	475,000	342,699	132,301	85,000	(47,301)	Negotiation	Mr. Azeem Soori s/o Muhammad Ayub Soori R 203 / Sector 11-C-1, North Karachi, Karachi
<b>Motor Cycles</b>							
Honda CD-70 KCO-5242	16,000	15,986	14	8,000	7,986	Negotiation	Mr. Muhammad Altaf S/o Muhammad Dawood Ismail House # L-110, Haji Lemo Goth, Gulshan-e-Iqbal, Block-3, Karachi
<b>Rupees- June 2006</b>	<b>8,627,240</b>	<b>5,852,280</b>	<b>2,774,960</b>	<b>2,763,000</b>	<b>(11,960)</b>		
<b>Rupees- June 2005</b>	<b>2,438,820</b>	<b>1,123,759</b>	<b>1,315,061</b>	<b>1,302,000</b>	<b>(13,061)</b>		



	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>15.2 CAPITAL WORK-IN-PROGRESS</b>		
Opening Balance	139,082,414	9,471,210
<b>Additions during the year:</b>		
Machines under installation	23,263,435	170,897,451
Advance for machinery	11,830,200	—
Building under construction	48,001,398	52,352,459
	83,095,033	223,249,910
Transferred to Fixed Assets	(72,813,558)	(93,638,706)
<b>Closing Balance</b>	<b>149,363,889</b>	<b>139,082,414</b>
<b>16. STORES, SPARES AND CHEMICALS</b>		
Stores	61,866,143	79,303,247
Chemicals	46,052,491	39,268,175
Spare parts	81,672,407	66,309,329
	<b>189,591,041</b>	<b>184,880,751</b>
<b>17. STOCK-IN-TRADE</b>		
Raw Materials	37,019,538	68,640,390
Work-in-Process	49,210,410	27,425,524
Finished Goods	608,763,200	464,193,405
	<b>694,993,148</b>	<b>560,259,319</b>
<b>18. TRADE DEBTS - Considered Good</b>		
Local - Unsecured	44,401,924	37,730,544
Bills under collection - Secured	35,799,436	83,864,745
	<b>80,201,360</b>	<b>121,595,289</b>
<b>18.1</b>		
<b>18.1</b> These are secured by irrevocable Letter of Credit and Export Documents.		
<b>19. LOANS AND ADVANCES</b>		
Considered good :		
Suppliers	21,827,821	9,500,767
Employees	4,236,113	4,681,693
Advance to associated undertaking	—	37,500,000
Others	28,579,424	17,469,778
	<b>54,643,358</b>	<b>69,152,238</b>
<b>19.1</b>		
<b>19.1</b> Loans and advances are unsecured but are considered to be good.		
No loans / advances were made to Director or Chief Executive of the Company during the year.		



# NAKSHBANDI INDUSTRIES LIMITED

	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>20. SHORT TERM PREPAYMENTS</b>		
Prepayments	<u>9,000,659</u>	<u>14,273,017</u>
<b>21. OTHER RECEIVABLES</b>		
Sales tax refundable	30,294,753	79,462,312
Export rebate	1,312,040	2,221,700
	<u>31,606,793</u>	<u>81,684,012</u>
<b>22. CASH &amp; BANK BALANCES</b>		
-in hand	1,536,013	2,008,367
-with banks in current account	3,200,976	10,187,270
	<u>4,736,989</u>	<u>12,195,637</u>
<b>23. SALES</b>		
Local	147,197,911	164,007,836
Export	1,847,801,695	1,205,353,544
	1,994,999,606	1,369,361,380
Less: Sales tax	(96,753)	(24,259,879)
Brokerage	(1,536,748)	(1,227,766)
Commission	(54,913,002)	(8,455,935)
	(56,546,503)	(33,943,580)
	<u>1,938,453,103</u>	<u>1,335,417,800</u>
<b>24. COST OF SALES</b>		
Opening stock of finished goods	464,193,405	436,192,086
Add: Cost of goods manufactured	24.1 1,867,194,466	1,189,005,455
	2,331,387,871	1,625,197,541
Less: Closing stock of finished goods	(608,763,200)	(464,193,405)
	<u>1,722,624,671</u>	<u>1,161,004,136</u>





		June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>24.1 Cost of Goods Manufactured</b>			
Raw materials consumed	24.1.1	1,017,881,327	668,351,908
Stores consumed		210,246,485	133,381,051
Salaries, wages and benefits	24.1.2	178,564,810	122,981,063
Fuel, power and water		153,599,558	103,622,937
Manufacturing charges		146,090,990	38,772,544
Insurance		7,502,832	6,149,142
Repair and Maintenance		37,087,930	15,545,660
Building repairs		343,650	474,704
Other manufacturing expenses		8,228,464	4,518,839
Depreciation		129,433,306	95,260,063
Work-in-process opening		27,425,524	27,373,068
Work-in-process closing		(49,210,410)	(27,425,524)
		<u>1,867,194,466</u>	<u>1,189,005,455</u>

**24.1.1 Raw Material Consumed**

Opening stock	68,640,390	45,281,707
Purchases during the year	986,260,475	691,710,591
	<u>1,054,900,865</u>	<u>736,992,298</u>
Less : Closing stock	(37,019,538)	(68,640,390)
	<u>1,017,881,327</u>	<u>668,351,908</u>

**24.1.2** Its includes employees retirement benefits amounting to Rs.5,000,000 (2005: 4,974,741).

**25. GENERAL & ADMINISTRATIVE EXPENSES**

Salaries & Benefits	13,478,988	10,336,408
Provident Fund	413,877	266,928
Rent, Rates & Taxes	2,346,028	1,115,114
Vehicle Running Expenses	9,223,855	5,223,387
Conveyance & Traveling	2,790,260	3,722,802
Printing & Stationery	4,490,535	973,263
Postage, Telegram & Telephone	3,753,690	3,240,833
Miscellaneous	8,594,730	5,553,846
Depreciation	5,117,980	2,095,474
	<u>50,209,943</u>	<u>32,528,055</u>



	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
<b>26. SELLING EXPENSES</b>		
Freight and Insurance	39,234,538	22,684,108
Forwarding Charges	19,191,717	11,011,771
Sales promotion	31,819,688	25,907,869
Quota Premium	—	12,287,036
Export Development Surcharge	4,502,693	3,263,088
Advertisement	740,276	775,758
	<u>95,488,912</u>	<u>75,929,630</u>
<b>27. FINANCIAL CHARGES</b>		
Mark-up on :		
- Long term loans	57,902,633	32,696,259
- Obligation under finance lease	1,117,279	599,042
- Short term borrowing	80,293,891	28,811,131
Guarantee commission	506,618	495,382
Interest on WPPF	—	121,606
Bank commission & charges	4,493,394	2,375,618
	<u>144,313,815</u>	<u>65,099,038</u>
<b>28. OTHER OPERATING CHARGES</b>		
Loss on disposal of fixed assets	11,960	13,061
Audit fees	28.1 175,000	175,000
Donations	28.2 606,500	494,887
	<u>793,460</u>	<u>682,948</u>
<b>28.1 Auditors' remuneration</b>		
Audit fee	125,000	125,000
Fee for the half yearly review	50,000	50,000
	<u>175,000</u>	<u>175,000</u>
<b>28.2</b>	None of the directors and their spouses had any interest in these donations.	
<b>29. PROVISION FOR TAXATION</b>		
Current	<u>21,000,000</u>	<u>11,500,000</u>
<b>29.1</b>	The Income Tax Assessments of the Company have been finalized upto and including Assessment year 2004-2005.	
<b>30. EARNINGS PER SHARE (BASIC)</b>		
Net (loss) after tax	(95,977,698)	(11,334,707)
Weighted average number of ordinary shares 30.1	<u>27,655,714</u>	<u>25,236,565</u>
(Loss) per share	<u>(3.47)</u>	<u>(0.45)</u>
<b>30.1</b>	Previous year's weighted average number of ordinary shares is restated on account of right issue during the year.	



**31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

Particulars	2006				2005			
	Chief Executive	Directors	Executive	Total	Chief Executive	Directors	Executive	Total
Meeting Fee	—	5,500	—	5,500	—	6,500	—	6,500
Managerial remuneration	839,994	1,280,000	3,638,400	5,758,394	468,000	682,500	2,555,551	3,706,051
House Rent allowance	336,012	512,000	1,455,360	2,303,372	205,200	299,250	1,022,221	1,526,671
Utilities allowance	83,994	128,000	363,840	575,834	46,800	68,250	255,555	370,605
	1	6	5	12	1	6	5	12

The Chief Executive and Directors have been provided with the company's maintained cars.

**32. CAPACITY AND PRODUCTION**

Towel	Looms		Production (000 Kgs)		% of Capacity Attained	No. of Shifts Worked
	Installed	Worked	Capacity	Actual		
2006 (Twelve Months)	96	96	5434	4666	85.87%	Three
2005 (Nine Months)	96	96	4087	3664	89.65%	Three

**33. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value of all financial assets and financial liabilities are estimated to approximate their respective carrying amount.

**34. INTEREST/MARK-UP RATE RISK MANAGEMENT**

Interest/Mark-up risk arises from the possibility that changes in interest/mark-up rate will effect the value of financial instruments. In respect of interest bearing financial liabilities, the following table indicate their effective interest/mark-up rates at the balance sheet date. The Company manages its interest and mark-up risk by entering into agreement in respect of finance required on fixed rate basis.



# NAKSHBANDI INDUSTRIES LIMITED

	2006			
	Interest Bearing		Non-Interest Bearing	Total
	One month to one year	One year to on ward		
<b>Financial Assets</b>				
Long Term Deposits	—	—	3,699,320	3,699,320
Trade Debtors	—	—	80,201,360	80,201,360
Loans and Advances	—	—	54,643,358	54,643,358
Short term prepayments	—	—	9,000,659	9,000,659
Cash and Bank Balances	—	—	4,736,989	4,736,989
	—	—	152,281,686	152,281,686
<b>Financial Liabilities</b>				
Long Term Loan	208,200,000	328,950,000	—	537,150,000
Obligation under finance lease	7,826,259	19,498,272	—	27,324,531
Short Term Finances	974,559,755	—	—	974,559,755
Trade and other payables	—	—	294,155,375	294,155,375
Accrued mark-up on finances	—	—	36,088,365	36,088,365
	1,190,586,014	348,448,272	330,243,740	1,869,278,026

(a) Effective rates of mark-up for financial liabilities are as follows :

	<u>Rate of Interest</u>
Long Term Loans	Refer Note #. 7
Obligations under Finance Lease	Refer Note #. 8
Short Term Finances	Refer Note #. 12

	2005			
	Interest Bearing		Non-Interest Bearing	Total
	One month to one year	One year to on ward		
<b>Financial Assets</b>				
Long Term Deposits	—	—	1,758,520	1,758,520
Trade Debtors	—	—	126,781,825	126,781,825
Loans and Advances	—	—	69,152,238	69,152,238
Short term prepayments	—	—	14,273,015	14,273,015
Other receivables	—	—	81,684,012	81,684,012
Taxation recoverable	—	—	24,087,096	24,087,096
Cash and Bank Balances	—	—	12,195,638	12,195,638
	—	—	329,932,344	329,932,344
<b>Financial Liabilities</b>				
Long Term Loan	172,900,000	508,850,000	—	681,750,000
Obligation under finance lease	1,151,679	1,637,231	—	2,788,910
Short Term Finances	907,976,825	—	—	907,976,825
Trade and other payables	—	—	295,885,620	295,885,620
Accrued mark-up on finances	—	—	23,904,315	23,904,315
	1,082,028,504	510,487,231	319,789,935	1,912,305,670



**35. CREDIT RISK**

Credit risk represent the accounting laws that could be recognize at the reporting that if counter parties failed complete to perform as contracted. To reduce exposure to credit risk, export sales are made to buyer against irrevocable letter of credit and export documents while local sales are made against payments. As substantial portion of trade debtors stands realized, the company is not materially exposed to credit risk.

**36. FOREIGN EXCHANGE RISK MANAGEMENT**

Foreign currency risk arises mainly where receivables and payables exist due to transaction in / based on other then Pak Rupees. The company incurs foreign currency risk on export sales and imports. The Company's foreign currency risk arising on exports is managed by making forward sales or discounting of export bills if required. To hedge against its foreign currency risk arising on imports, it enters into forward foreign exchange contracts, when considered appropriate.

**37. LIQUIDITY RISK MANAGEMENT**

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.

**38. AGGREGATE TRANSACTIONS WITH RELATED PARTIES**

The related parties comprise associated companies, directors and key management personnel. Transactions with associated undertakings and related parties, other than remunerations and benefits to key management personnel under the term of their employment.

	June 30, 2 0 0 6 Rupees	June 30, 2 0 0 5 Rupees
Sales of goods	9,017,223	29,358,340
Manufacturing and other charges	27,335,101	25,861,627
Advance against purchase of land	—	37,500,000

**39. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on September 30, 2006 by the Board of Directors of the Company.

**40. NUMBER OF EMPLOYEES**

Total number of employees including contractor's employees as at June 30, 2006 were 992 (2005: 911)

**41. GENERAL**

**FIGURES**

- have been rounded off to the nearest rupee.

MUHAMMAD ASIF A. GHAFAR  
Chief Executive

MURTAZA A. RAZAK  
Director



**PATTERN OF SHAREHOLDING  
AS AT JUNE 30, 2006**

No of Shareholders	Shareholding				Total shares held
274	From	1	to	100	Share 9,187
133	From	101	to	500	Share 29,621
33	From	501	to	1,000	Share 22,580
36	From	1,001	to	5,000	Share 76,386
3	From	5,001	to	20,000	Share 37,663
3	From	20,001	to	120,000	Share 189,554
1	From	120,001	to	500,000	Share 234,286
1	From	500,001	to	1,000,000	Share 540,288
3	From	1,000,001	to	2,000,000	Share 5,113,702
7	From	2,000,001	to	4,000,000	Share 21,057,938
1	From	4,000,001	to	to and above	Share 6,578,651
495					33,889,856

Categories of Shareholders	Number of Share Holders	Share held	Percentage
Financial Institutions	1	234,286	0.69
Insurance Companies	3	114,002	0.34
Investment Companies	2	19	0.00
Public Sector Companies	3	4,488	0.01
Director, CEO, their Spouses & Minor	10	25,533,780	75.34
Charitable Institution	2	1,412	0.00
Individual	474	8,001,869	23.61
	<b>495</b>	<b>33,889,856</b>	<b>100.00</b>



DETAILS OF PATTERN OF SHAREHOLDING AS PER  
REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

Categories of Shareholders	No of shareholders	Share held
<b>FINANCIAL INSTITUTIONS</b>		
National Bank of Pakistan Trustee Wing	1	234,286
<b>INSURANCE COMPANIES</b>		
Habib Insurance Co Limited		4,187
Pakistan Reinsurance Company Ltd		331
State Life Insurance Corporation		109,484
	3	114,002
<b>INVESTMENT COMPANIES</b>		
Investment Corporation of Pakistan		6
Shirazi Investment Ltd		13
	2	19
<b>PUBLIC SECTOR COMPANIES</b>		
	3	4,488
<b>DIRECTORS, CEO, THEIR SPOUSES AND MINOR CHILDREN</b>		
A.RAZAK HAJI SATTAR	Chairman	3,557,054
HAMID HAJI LATIF	Director	40,035
JUNAID HAJI LATIF	Director	40,035
MUSTAFA A.RAZAK	Director	2,554,206
MURTAZA A.RAZAK	Director	2,155,133
HANIYA ASIF	Director	540,288
MUHAMMAD ASIF A.GHAFFAR	Chief Executive	3,626,268
JAMILA A.RAZAK		3,265,194
ASIFUN MAHJABEEN		3,176,916
ASHFAQ AHMED A. GHAFAR		6,578,651
	10	25,533,780
<b>SPONSOR</b>		
	4	7,836,869
<b>CHARITABLE INSTITUTION</b>		
	2	1,412
<b>INDIVIDUAL</b>		
	470	165,000
	495	33,889,856