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COMPANY INFORMATION

| | | |
|--------------------------------------|---|--|
| BOARD OF DIRECTORS | : | A. RAZAK HAJI SATTAR (Chairman) ABDUL RAHMAN YAQUB SHABBIR AHMED s/o MUHAMMAD YAQOOB KHALEEQ-UR-RAHMAN s/o ZIKRUR RAHMAN JAWED YUNUS TABBA MURTAZA A. RAZAK MUHAMMAD ASIF TELI (Chief Executive) |
| CHIEF FINANCIAL OFFICER (CFO) | : | ABDUL WAHAB ESSANI |
| COMPANY SECRETARY | : | RAUF DAWOOD |
| AUDIT COMMITTEE | : | KHALEEQ-UR-RAHMAN - Chairman A. RAZAK HAJI SATTAR - Member JAWED YUNUS TABBA - Member |
| REGISTERED OFFICE | : | H-23/4-A LANDHI, KARACHI. |
| MILLS | : | H-23/4-A LANDHI, KARACHI. |
| SHARES DEPARTMENT | : | H-23/4-A LANDHI, KARACHI. |
| BANKERS | : | HABIB BANK LIMITED BANK AL HABIB LIMITED ASKARI BANK LIMITED STANDARD CHARTERED BANK (PAKISTAN) LIMITED HABIB METROPOLITAN BANK LIMITED BANK ALFALAH LIMITED |
| AUDITORS | : | RAHMAN SARFARAZ RAHIM IQBAL RAFIQ Chartered Accountants 180-A, S.M.C.H.S., KARACHI. |
| LEGAL ADVISOR | : | M. ADAM PATEL & CO. |



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 36th 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 Thursday October 30, 2008 at 02:00 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, 2008.
2. To appoint Auditors for the year 2008 - 2009 and fix their remuneration.
3. To transact any other ordinary business with the permission of the Chair.

SPECIAL BUSINESS

4. To approve the remuneration of the Chief Executive and Director for next term of three years.

By Order of the Board
RAUF DAWOOD
Company Secretary

Karachi : October 08, 2008

NOTES :

1. The share transfer books of the Company will remain closed from October 30, 2008 to November 5, 2008 (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 National Identity 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. Representatives of corporate members should bring the usual documents required for such purpose.
4. A proxy must be a members of the Company.
5. Shareholders are requested to immediately notify the change of address if any.
6. A Statement under section 160 of the Companies Ordinance, 1984 in regard to aforesaid Special Business is appended to the notice of meeting send to the share holders.

| DESIGNATION | NO. OF PERSON | GROSS REMUNERATION 1 ST April, 2008 Rupees | GROSS REMUNERATION 1 ST April, 2009 Rupees | GROSS REMUNERATION 1 ST April, 2010 Rupees |
|-----------------|---------------|---|---|---|
| CHIEF EXECUTIVE | 1 | Rs. 500,000 | Rs. 600,000 | Rs. 700,000 |
| DIRECTOR | 1 | Rs. 250,000 | Rs. 300,000 | Rs. 350,000 |



DIRECTORS' REPORT

Your Directors are pleased to present the 36th Annual Report together with the audited financial statements of the Company for the year ended June 30, 2008.

FINANCIAL RESULTS

| | June 30, 2 0 0 8 Rupees | June 30, 2 0 0 7 Rupees |
|--|--|--|
| Loss before taxation | (92,933,160) | (372,567,792) |
| Provision for taxation | (12,750,000) | (11,500,000) |
| Loss after taxation and before discontinued operation | (105,683,160) | (384,067,792) |
| Loss from discontinued operation | (13,394,225) | (113,749,385) |
| | (119,077,385) | (497,817,177) |
| Accumulated Loss brought forward | (535,337,266) | (37,520,089) |
| | (654,414,651) | (535,337,266) |

During the year under review the company has witnessed huge increase in the prices of Raw Material, Dyes & Chemicals, Fuel & Power and Freight. However, compare to last year the company has successfully managed to increase the volume of sales orders resulted in increase in production by 1,110 tons (increased by 30.37% over previous year) including commercial production and hence managed to absorb substantial portion of fixed overhead. In addition to above, devaluation of Pakistan Rupee further supported the company's operation and your management successfully achieved the gross profit for the year as compared to gross loss in previous year.

Overall loss for the year has been reduced considerably due to complete shut down of fabric processing unit.

EARNING PER SHARE

- from continued operation is Rs. (3.12), being negative due to loss for the year.
- from discontinued operation is Rs. (0.40), being negative due to loss for the year.

DIVIDEND

The company has not declared any dividend because of net loss.

STATUS OF REVIVAL STRATEGIES

The Company has successfully achieved major milestones of its revival strategies comprising of :

- Strategic marketing alliance for USA market with 1888 Mills LLC
- Issuance of Right Shares
- Restructuring of Bank Loans
- Sale of assets of discontinued operation



STRATEGIC MARKETING ALLIANCE

During the year the company has entered into a memorandum of understanding to pursue integration of Nakshbandi into the global manufacturing base of 1888 Mills LLC a diversified home textiles supplier based in Oakbrook, Ill, USA

On completion of due diligence process both companies have reached agreement that 1888 Mills LLC will market, sell and plan all production from the Nakshbandi facility.

RIGHT ISSUE

Pursuant to the decision taken in the Board of Directors meeting held on April 9, 2008, right issue of 121% of issued, subscribed and paid-up capital of the company has been approved. As on June 30, 2008 the company has received Rs. 342 million against right shares subscription. Last date for renunciation of right allotment letter was July 11, 2008. Full subscription has been received and released to the company by July 24, 2008. The proceeds is being utilized to re-pay the Short Term bank finances and working capital. Increase in working capital in the first quarter of 2008-2009 is resulted in reduction of financial charges and benefit of economic order quantity on purchase of raw material, dyes & chemicals and other stores items.

FINANCIAL DEBTS AND COMPLIANCE

The company has successfully completed all restructuring arrangements with the banks and there is no overdue installment in respect of facilities as on June 30, 2008.

ECONOMIC OUTLOOK

The entire textile industry is facing serious crisis. Increase in prices of Raw Material, Dyes & Chemicals, Fuel and Power, Freight and minimum wages will adversely effect the operational performance of the company. In addition to above Research and Development support which was paramount to compete in international market has been discontinued by the Government effective July 1, 2008. As stated in last directors report for the third quarter the benefit of turmoil in the international market may not be achieved due to serious and worst economic outlook of USA and other European countries. However, we have substantial edge over other manufacturers due to the Strategic Marketing Alliance with 1888 Mills LLC a leading manufacturer and supplier in USA. Your directors are still optimistic in-spite of above discouraging factors as our strong alliance will mitigate the negative impact and we hope to realize reasonable benefits.

PLANS AND PROSPECTS

The directors are quite satisfied with the progress of revival plan and successfully achieved all major milestones well within time. We are now concentrating to increase the production capacity and its full utilization due to continued and expected future growth as a result of strategic marketing alliance.

AUDITORS' OBSERVATION / OPINION

With reference to the auditors' observation regarding going concern, the matter has been well addressed in note 1.3 to the accounts and further elaborated above. The directors are optimistic with the progress and results are as per our expectation. Revival strategies as stated in note 1.3 and above explanation will remove the uncertainty.



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, 2008, 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 spouses and minor children has traded in the shares of the Company with the exception of the following:

| Director | Shares Sold |
|-----------------------|--------------------|
| Mr. Murtaza A. Razak | 1,773,444 |
| Ex-Director | |
| Mr. Mustafa A. Razak | 1,507,577 |
| Mr. Hamid Haji Latif | 39,535 |
| Mr. Junaid Haji Latif | 39,535 |
| Mrs. Haniya Samiullah | 539,788 |

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

The present Audit Committee comprises of:

1. Mr. Khaleeq ur Rahman S/o Zikrur Rahman (Chairman).
2. Mr. A. Razak Haji Sattar .
3. Mr. Jawed Yunus Tabba.

BOARD OF DIRECTORS

The elections for the office of Directors were held on March 31, 2008 for three years' term. The Board welcomes following new Directors:



- 1) Mr. A. Razak Haji Sattar
- 2) Mr. Abdul Rahman Yaqub
- 3) Mr. Muhammad Asif Teli
- 4) Mr. Murtaza A. Razak
- 5) Mr. Shabbir Ahmed s/o Muhammad Yaqoob
- 6) Mr. Khaleeq ur Rahman s/o Zikrur Rahman
- 7) Mr. Jawed Yunus Tabba

and appreciates the contributions of the outgoing Directors

Six 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) | 6 |
| Mr. Abdul Rahman Yaqub | - |
| Mr. Shabbir Ahmed S/o Muhammad Yaqoob | 1 |
| Mr. Khaleeq ur Rahman S/o Zikrur Rahman | 1 |
| Mr. Jawed Yunus Tabba | 2 |
| Mr. Murtaza A. Razak | 6 |
| Mr. Muhammad Asif Teli (Chief Executive) | 6 |

| <u>OUTGOING DIRECTORS</u> | <u>ATTENDANCE</u> |
|---------------------------|-------------------|
| Mr. Hamid Haji Latif | 4 |
| Mr. Junaid Haji Latif | 2 |
| Mrs. Haniya Samiullah | 4 |
| Mr. Mustafa A. Razak | 4 |

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

AUDITORS

The auditors M/s Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, retire at the forthcoming Annual General Meeting of the Company to be held on October 30, 2008, and, being eligible, offer themselves for reappointment.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2008 prepared in accordance with the requirements of the Code of Corporate Governance is annexed to this report.

ACKNOWLEDGMENT

In end the directors would like to appreciate and place on record the support of our bankers and suppliers during the phase of our revival. Our executives, staff members and worker are equally eligible for appreciation for their committed efforts toward the company and with the blessing of Almighty we all will share the benefit of success of the company.

For and on behalf of the Board

A. RAZAK HAJI SATTAR
Chairman

Karachi:
Dated : October 08, 2008.



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 and 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 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, | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| PRODUCTION SUMMARY (IN TONS) | 3,910.00 | 3,275.00 | 4,666.00 | 3,664.00 | 4,979.00 | 2,894.00 |
| ASSETS EMPLOYED | (Rs. in million) | | | | | |
| Fixed Assets | 1,365.22 | 1,648.51 | 1,680.23 | 1,349.56 | 1,091.77 | 1,037.16 |
| Investments, Long term | | | | | | |
| Advances and Deposits | 3.03 | 4.92 | 3.70 | 1.76 | 0.38 | 0.45 |
| Current Assets | 679.55 | 535.88 | 1,082.71 | 1,066.57 | 1,287.79 | 1,091.53 |
| Assets classified as held for sale | 140.80 | — | — | — | — | — |
| Total Assets Employed | 2,188.61 | 2,189.31 | 2,766.64 | 2,417.89 | 2,379.94 | 2,129.14 |
| FINANCED BY | | | | | | |
| Shareholders' Equity | (100.27) | 18.81 | 516.63 | 467.10 | 478.70 | 377.49 |
| Right Shares Subscription Account | 341.87 | | | | | |
| Long Term Liabilities | 790.76 | 784.78 | 328.95 | 518.85 | 580.01 | 500.50 |
| Obligation under Finance Lease | 0.00 | 10.81 | 19.50 | 1.64 | 2.52 | 13.09 |
| Deferred Liabilities | 0.00 | 11.83 | 21.29 | 17.31 | 33.11 | 32.88 |
| Current Liabilities | 683.50 | 1,024.63 | 1,541.83 | 1,412.99 | 1,285.60 | 1,205.18 |
| Liabilities classified as held for sale | 134.30 | — | — | — | — | — |
| Total Funds Invested | 1,850.17 | 1,850.87 | 2,428.19 | 2,417.89 | 2,379.94 | 2,129.14 |
| TURNOVER & PROFIT | | | | | | |
| Turnover (Net) | 1,276.85 | 1,617.29 | 1,938.45 | 1,335.14 | 1,991.87 | 1,147.10 |
| Gross Profit/(Loss) | 112.51 | (117.965) | 215.83 | 176.28 | 242.51 | 145.87 |
| Operating (Loss) / Profit | (36.25) | (226.896) | 70.13 | 65.24 | 79.21 | 40.68 |
| (Loss)/Profit Before Taxation | (92.93) | (372.567) | (74.98) | 0.12 | 26.22 | (49.77) |
| (Loss)/Profit After Taxation & Before Discontinued Operation | (105.68) | (384.067) | (95.98) | (11.33) | 10.69 | (51.67) |
| Dividend | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 |
| Transfer to Reserves | 0.00 | 0.00 | 0.00 | (11.00) | 10.00 | (51.00) |
| (Loss)/Profit C/F | (654.41) | (535.34) | (37.52) | 0.46 | 0.79 | 0.35 |
| Financial Charges | 58.14 | 144.98 | 144.31 | 65.10 | 52.03 | 90.46 |
| Loss per share - Basic & Diluted | | | | | | |
| - from continued operations | (3.12) | (14.69) | (2.83) | (0.47) | 0.44 | (2.85) |
| - from discontinued operations | (0.04) | (3.36) | — | — | — | — |
| Breakup value of shares | | | | | | |
| No. of Shares | 33,889,856 | 33,889,586 | 33,889,586 | 24,207,040 | 24,207,040 | 18,155,280 |
| Capital + Rev. Reserves - Accum. loss Rs. | (100,265,990) | 18,811,394 | 516,628,571 | 467,316,531 | 478,949,594 | 377,484,290 |
| Surplus on revaluation of property Rs. | 338,441,900 | 338,441,900 | 338,441,900 | — | — | — |
| Breakup Value per share without revaluation Rs. | (2.96) | 0.56 | 15.24 | 19.30 | 19.79 | 20.79 |
| Breakup Value per share with revaluation Rs. | 7.03 | 10.54 | 25.23 | — | — | — |



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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
11. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.



12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an audit committee. It comprises 3 members, all of them are non-executive directors.
14. 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.
15. The Board has set-up an effective internal audit function.
16. 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.
17. 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.
18. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board of Directors
MUHAMMAD ASIF TELI
Chief Executive

Karachi:
Dated : October 08, 2008.



**STATEMENT OF ETHICS AND BUSINESS PRACTICES
for the year ended June 30, 2008**

This Statement has been formulated to ensure that directors and employees of the Company operate within acceptable standards of conduct and sound business principles which strive for development and growth. The Company takes pride in adherence to its principles and continues to serve its customers, stakeholders and society on the following guidelines.

CODE OF CONDUCT

The Company strongly believes in fair, transparent, ethical and high professional standards of conduct in all areas of business activities.

The Company has adapted democratic leadership style and believes that candor leads to effective team work.

The credibility, goodwill and repute earned over the years can be maintained through continued conviction in our corporate values of honesty, justice, integrity, and respect for people.

SHAREHOLDERS' INTEREST

The Company believes in maximizing shareholders value by providing consistent growth and fair return on their investment.

OPERATIONS

The Company shall formulate and monitor its objectives, strategies and overall business plan of the organization.

The Company shall be continuously involved in the research and development of new products while improving quality of existing products using highest level of quality control measures at every stage of its operations. Creativity and innovation must prevail at all levels of hierarchy to achieve organizational excellence.

RELATIONS WITH CUSTOMERS

The Company considers it imperative to maintain

cordial relationship with the customers as integral to its growth and development of business and is committed to provide high quality products and services that conform to highest international standards.

ABIDANCE OF LAW

It is Company's prime object to comply with all applicable laws and regulations and to co-operate with all governmental and regulatory bodies.

CORPORATE REPORTING AND INTERNAL CONTROLS

The Company maintains effective, transparent and secure financial reporting and internal control systems so as to ensure reliable performance measurement and compliance with local regulations and international accounting standards as applicable.

The Company strictly adheres to the principles of good corporate governance and is committed to high standards of corporate governance.

The company regularly updates and upgrades manufacturing and reporting systems so as to keep abreast with technological advancements and achieve economies of production.

INTEGRITY AND CONFIDENTIALITY

The Company believes in uprightness and expects it to be a fundamental responsibility of employees to act in Company's best interest while holding confidential information and neither to solicit internal information from others nor to disclose Company's figures, data or any material information to any unauthorized person/body.



Inside information about the Company, its customers, vendors, employees shall not be used for their own gain or for that of others directly or indirectly.

It also believes in community development without political affiliations with any person or group of persons and contributes part of its resources for a better environment with an unprejudiced approach.

RELATIONS WITH EMPLOYEES

The Company is an equal opportunity employer at all levels with respect to issues such as color, race, gender, age, ethnicity and religious beliefs and its promotional policies are free of any discrimination.

The Company ensures that employees work towards achievement of corporate objectives, individually and collectively as a team and conduct themselves at work and in society as respectable employees and good citizens.

The Company believes in continuous development and training of its employees.

The Company has set high standards of performance and recognizes employee's contribution towards its growth and rewards them based on their performance. The Company believes development, growth and recognition result in motivated employees.

All employees of the Company are part of Nakshbandi family and the families of all members are also part and parcel of Nakshbandi family. The Company believes that the sense of belonging to Nakshbandi fulfils an essential need of its employees and the organizations and as such will always be nurtured.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

Protecting the environment in which we live is an important element. The Company uses all means to ensure a clean, safe, healthy and pollution free environment not only for its workers and employees but also for the well being of all people who live in and around any of the production and manufacturing facilities. The Company will always employ such technology as may be beneficial in maintaining a healthy and hygienic working environment.



**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, 2008.

Karachi:
Dated : October 08, 2008

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, 2008**, 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
 - 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, 2008** 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).

Without qualifying our opinion we draw attention to note 1.2 to the financial statements, which indicate the existence of material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern. The going concern assumption used in the preparation of these financial statements is dependent on the ultimate outcome of matters disclosed in note 1.3 by the management.

Karachi:
Dated : October 08, 2008

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
Chartered Accountants



BALANCE SHEET AS AT

| | NOTE | June 30, 2008 Rupees | June 30, 2007 Rupees |
|---|-------------|----------------------------|----------------------------|
| SHARE CAPITAL & RESERVES | | | |
| Authorised 75,000,000 ordinary shares of Rs. 10/- each (2007 : 50,000,000 Ordinary Shares of Rs. 10/- each) | | 750,000,000 | 500,000,000 |
| Issued, Subscribed and Paid - up Capital | 3 | 338,898,560 | 338,898,560 |
| Reserves | 4 | 215,250,100 | 215,250,100 |
| Accumulated (Loss) | | (654,414,651) | (535,337,266) |
| | | (100,265,991) | 18,811,394 |
| Surplus on revaluation property | 5 | 338,441,900 | 338,441,900 |
| Right shares subscription account | | 341,871,570 | — |
| NON-CURRENT LIABILITIES | | | |
| Long term finance from sponsors | 6 | 61,940,150 | 50,000,000 |
| Long term finance from related party | 7 | 150,000,000 | 150,000,000 |
| Long term finance from banks | 8 | 578,822,058 | 584,784,000 |
| Liability against assets subject to finance lease | 9 | — | 10,811,359 |
| Deferred liabilities | 10 | — | 11,827,633 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 235,379,262 | 287,316,596 |
| Accrued interest/mark-up | 12 | 9,642,605 | 35,765,554 |
| Short term borrowings | 13 | 301,618,520 | 481,354,500 |
| Current portion of long term liabilities | 14 | 123,644,326 | 204,195,447 |
| Taxation | | 13,216,765 | 16,000,000 |
| | | 683,501,478 | 1,024,632,097 |
| Liabilities classified as held for sale | 24.2 | 134,301,505 | — |
| CONTINGENCIES AND COMMITMENTS | 15 | — | — |
| | | 2,188,612,670 | 2,189,308,383 |

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



30TH JUNE, 2008

| | NOTE | June 30, 2 0 0 8 Rupees | June 30, 2 0 0 7 Rupees |
|---|-----------|-------------------------------|-------------------------------|
| PROPERTY, PLANT AND EQUIPMENT (at revalued amount less accumulated depreciation) | 16 | 1,365,223,273 | 1,648,513,121 |
| LONG TERM INVESTMENT | | 10,000 | — |
| LONG TERM DEPOSITS | | 3,028,019 | 4,919,819 |
| CURRENT ASSETS | | | |
| Stores, spares and chemicals | 17 | 77,146,807 | 135,827,950 |
| Stock-in-trade | 18 | 283,293,948 | 259,164,838 |
| Trade debts | 19 | 50,100,350 | 81,091,813 |
| Loans and advances | 20 | 12,584,199 | 10,942,436 |
| Short term prepayments | 21 | 4,552,442 | 2,282,010 |
| Other receivables | 22 | 29,215,787 | 28,277,628 |
| Taxation recoverable | | 8,939,538 | 12,062,976 |
| Cash and bank balances | 23 | 213,721,593 | 6,225,792 |
| | | 679,554,664 | 535,875,443 |
| Assets classified as held for sale | 24.1 | 140,796,714 | — |
| | | 2,188,612,670 | 2,189,308,383 |

MUHAMMAD ASIF TELI
Chief Executive

MURTAZA A. RAZAK
Director



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

| | NOTE | June 30, 2008 Rupees | June 30, 2007 Rupees |
|--|------|----------------------------|----------------------------|
| Sales - net | 25 | 1,276,850,199 | 1,170,120,255 |
| Cost of sales | 26 | (1,164,337,247) | (1,288,085,430) |
| Gross Profit/(loss) | | 112,512,952 | (117,965,175) |
| Administrative expenses | 27 | (54,665,986) | (60,372,108) |
| Selling and distribution expenses | 28 | (94,092,093) | (48,559,346) |
| | | (148,758,079) | (108,931,454) |
| | | (36,245,127) | (226,896,629) |
| Other income / (charges) | 29 | 1,454,517 | (689,730) |
| Finance cost | 30 | (58,142,550) | (144,981,433) |
| | | (56,688,033) | (145,671,163) |
| Loss before taxation | | (92,933,160) | (372,567,792) |
| Provision for taxation | | | |
| - Current year | 31 | (12,750,000) | (11,500,000) |
| (Loss) after taxation and before discontinued operation | | (105,683,160) | (384,067,792) |
| (Loss) from discontinued operation | | (13,394,225) | (113,749,385) |
| (Loss) after taxation and discontinued operation | | (119,077,385) | (497,817,177) |
| (Loss) per share basic and diluted | | | |
| - from continuing operations | 32 | (3.12) | (11.33) |
| - from discontinued operations | 34.8 | (0.40) | (3.36) |

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

MUHAMMAD ASIF TELI
Chief Executive

MURTAZA A. RAZAK
Director



**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2008**

| | June 30, 2008 Rupees | June 30, 2007 Rupees |
|---|----------------------------|----------------------------|
| CASH FROM OPERATING ACTIVITIES | | |
| Net (Loss) before taxation | (92,933,160) | (481,817,177) |
| Adjustment For : | | |
| Depreciation | 110,601,567 | 143,870,958 |
| Deferred liabilities | — | 926,755 |
| Finance cost | 58,142,550 | 144,981,432 |
| (Gain) on sales of fixed assets | (629,844) | (19,670) |
| | 168,114,273 | 289,759,475 |
| Cash flow from operating activities before working capital changes | 75,181,113 | (192,057,702) |
| (Increase)/Decrease in Current Assets | | |
| Stores and spares | 98,318 | 53,763,091 |
| Stock-in-trade | (24,129,110) | 435,828,310 |
| Trade debtors | 30,991,464 | (890,453) |
| Loans and advances | (1,641,763) | 43,700,922 |
| Short term prepayments | (329,632) | 6,718,649 |
| Other receivables | (938,159) | 3,329,165 |
| (Decrease) in Current Liabilities | | |
| Trade and other payables | (56,646,990) | (6,838,778) |
| | (52,595,872) | 535,610,906 |
| Cash generated from operating activities | 22,585,241 | 343,553,204 |
| Gratuity paid | (7,117,970) | (10,385,628) |
| Finance cost | (84,265,499) | (145,304,245) |
| Income tax paid | (12,876,562) | (15,130,222) |
| | (104,260,031) | (170,820,095) |
| Net cash (used in)/inflow from operating activities | (81,674,790) | 172,733,109 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Fixed capital expenditure | (10,606,492) | (115,848,238) |
| Sale proceeds of fixed assets | 11,322,588 | 3,713,411 |
| Long term investment | (10,000) | — |
| Long term deposits | (49,000) | (1,220,499) |
| Net cash from/(used in) Investing Activities | 657,096 | (113,355,326) |



| | June 30, 2 0 0 8 Rupees | June 30, 2 0 0 7 Rupees |
|---|--|--|
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Advance againsts right Issue | 341,871,570 | — |
| Loan from sponsors | 11,940,150 | 50,000,000 |
| Loan from related party | — | 150,000,000 |
| Long term finance restructured | 341,179,158 | 402,359,000 |
| Reversal of current maturity | (167,372,000) | — |
| Obligation under finance lease disbursements | — | 748,000 |
| Repayment of long term finance | (26,609,627) | (160,746,973) |
| Repayment of finance lease | (10,502,367) | (7,043,752) |
| Net cash inflow from financing activities | 490,506,884 | 435,316,275 |
| Net increase in cash and cash equivalent 409,489,190 | 494,694,058 | |
| Net cash from/(used in) discontinued operation | (22,257,409) | — |
| Cash and cash equivalent at the beginning | (475,128,708) | (969,822,766) |
| Cash and cash equivalent at the end | (87,896,927) | (475,128,708) |
| CASH AND CASH EQUIVALENTS | | |
| Cash and bank balance | 213,721,593 | 6,225,792 |
| Short term borrowing | (301,618,520) | (481,354,500) |
| | (87,896,927) | (475,128,708) |

MUHAMMAD ASIF TELI
Chief Executive

MURTAZA A. RAZAK
Director



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

| | Share Capital Rupees | Reserves Rupees | Accumulated Profit/(Loss) Rupees | Total Rupees |
|------------------------------------|-------------------------------------|----------------------------|---|-------------------------|
| Balance as at July 01, 2006 | 338,898,560 | 215,250,100 | (37,520,089) | 516,628,571 |
| (Loss) for the year ended | — | — | (497,817,177) | (497,817,177) |
| Balance as at June 30, 2007 | 338,898,560 | 215,250,100 | (535,337,266) | 18,811,394 |
| (Loss) for the year ended | | | | |
| - from continued operation | — | — | (105,683,160) | (105,683,160) |
| - from discontinued operation | — | — | (13,394,225) | (13,394,225) |
| Balance as at June 30, 2008 | 338,898,560 | 215,250,100 | (654,414,651) | (100,265,991) |

MUHAMMAD ASIF TELI
Chief Executive

MURTAZA A. RAZAK
Director



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. THE COMPANY AND ITS OPERATIONS

- 1.1 The Company was incorporated in Pakistan as a public limited company. The shares of the Company are quoted on Karachi Stock Exchange. The Company is principally engaged in production and export of towels. The registered office of the Company is situated at H-23/4-A Landhi, Karachi.
- 1.2 The financial statements of the company reflect loss after tax of Rs. 105.683 million for the year (2007: Rs. 384.068 million). Accumulated loss stood at Rs. 654.415 million (2007: Rs. 535.337 million) leaving a net negative capital of Rs. 100.266 million (Positive Capital 2007: Rs. 18.811 million).
- 1.3 The Company is continuously and successfully working on its revival strategies comprising of :
- a) Restructuring of long term loans;
 - b) Sale of loss making fabric processing unit;
 - c) Issuance of right shares @ 121%; and
 - d) Transfer of shares and strategic marketing alliance for USA market.

The Company has successfully negotiated with all the banks and as stated in note 13.2 Rs. 341 million have been restructured and transferred to long term loans with 18 months mark-up waiver period. This will reduce mark up cost and cash out flow.

The Company has completely shut down its fabric processing unit during the year which contributed operating loss of Rs 109.25 million in 2007. During the year company disposed off major portion of fabric processing assets and realized Rs.143 million out of which Rs.100 million have been disbursed to the banks.

During the year the company has announced 121% right issue which will generate additional cash inflow of Rs. 278 million. The last date for renunciation was July 11, 2008. Subsequent to the year end company has received full subscription on July 24, 2008.

During the year the sponsor shareholders transferred some of their shares and entered into strategic marketing alliance for USA market.

These measures are expected to meet the working capital requirements to execute the increased orders for export of towel and is expected to make the operations for the year 2008-09 profitable.

In view of the above, these financial statements have accordingly been prepared using going concern assumption.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

2.1.1 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 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 the Securities & Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1.2 **New accounting standards, amendments and IFRIC interpretations that are not yet effective**

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 July 2008 are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in the certain cases:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.
- Revised IAS 23 - Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). Amendments relating to mandatory capitalization of borrowing costs relating to qualifying assets.
- IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 July 2008).
- IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS 32 amended classification of Puttable Financial Instruments.
- IFRS 2 (amendment) - Share-based payments (effective for annual periods beginning on or after 1 January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.
- IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements. IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
- IFRS 7 - Financial instruments: Disclosures (effective for annual periods



beginning on or after 1 July 2008). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

- IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 14 - The limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009).
- IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

2.2 Accounting convention and basis of preparation

These financial statements have been prepared under the historical cost convention, except that the leasehold land have been included at revalued amounts, certain exchange elements have been incorporated in the cost of the relevant assets and staff retirement benefits have been recognized at values determined by actuary.

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make the judgment, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.3 Staff retirement benefits

Company operates an approved provident fund for eligible employees. The company contribute equal amount of employees contribution i.e. 8.33% of basic salary.

2.4 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.

2.5 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.

2.6 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and impairment loss, if any, except for Leasehold Land that are shown at revalued amounts. Depreciation is charged to the profit and loss account on written down value of respective assets applying reducing balance method. Depreciation on additions is charged for the full year in which an asset is put to use and no depreciation charged in the year in which assets disposed.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Gains and losses on disposal of assets, if any, are taken to the profit and loss account.

The carrying values of tangible Property, Plant & Equipments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exist 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 tangible fixed assets is greater of net selling price and value in use.

Leased

Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of the present value of minimum lease payments under the lease agreements and fair value of the assets acquired on lease. Depreciation is charged on the same basis as used for own assets.

Financial charges under the lease agreements is allocated over the periods during the lease term, so as to produce a constant periodic rate of financial charge on the outstanding balance of principal liability of each period.

Capital work in progress

Capital work-in-progress is stated at cost. It consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their



construction and installation. Transfers are made to relevant fixed assets category as and when assets are available for use.

2.7 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.

2.8 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle liability simultaneously.

2.9 Stores, spares and chemicals

Stores, spares and loose tools excluding items in transit are valued at lower of moving average cost and net realizable value. Provision is made for slow moving and obsolete items.

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

Items in transit are valued at cost comprising invoice values plus other charges incurred thereon accumulated to the balance sheet date.

2.10 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 lower of average cost or net realizable value.

2.11 Trade debts

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

2.12 Cash & cash equivalent

Cash in hand and at banks, short term bank deposits and short term running finances,



if any, are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand and deposits in bank, net of short term running finances (if any) that are highly liquid in nature and are readily convertible into known amounts of cash, which are subject to insignificant risks of changes in value.

2.13 Revenue recognition

Sales are recognized on dispatch of goods or on performance of services.

2.14 Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed off or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operations, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

2.15 Borrowing cost

Borrowing cost is recognized as an expense in the period in which they are incurred except borrowing cost that are directly attributable to acquisition, construction or production of qualifying asset is capitalized as a part of the cost of that asset.

2.16 Foreign Currency Translation

Foreign currencies are translated into reporting currency at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into reporting currency equivalents using year-end spot foreign exchange rates. Non-monetary assets are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency translations are included in income currently.

2.17 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such assets are estimated and impairment losses are recognized in the profit and loss account.

2.18 Related parties 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.



3. ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL

| 2 0 0 8 | 2 0 0 7 | | 2 0 0 8 | 2 0 0 7 |
|-------------------|-------------------|--|--------------------|--------------------|
| No. of shares | No. of shares | | Rupees | Rupees |
| 17,296,260 | 17,296,260 | Ordinary shares of Rs.10/- each fully paid-up in cash | 172,962,600 | 172,962,600 |
| 6,051,760 | 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 | 859,020 | Ordinary shares of Rs.10/-each issued as bonus shares | 8,590,200 | 8,590,200 |
| 9,682,816 | 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 | 96,828,160 |
| 33,889,856 | 33,889,856 | | 338,898,560 | 338,898,560 |

4. RESERVES

General Reserve

| | | |
|---|---|--------------|
| Opening Balance | — | 58,000,000 |
| Less: Transfer to Profit & Loss Account | — | (58,000,000) |
| | — | — |

Capital Reserve

| | | |
|---------------|--------------------|--------------------|
| Share Premium | 215,250,100 | 215,250,100 |
|---------------|--------------------|--------------------|

5. SURPLUS ON REVALUATION OF PROPERTY

The revaluation was done by an independent valuer M/s Iqbal A. Nanji & Company (an approved valuer from Pakistan Bank's Association) on December 31, 2005. The Company incorporated surplus on revaluation only on property.

6. LONG TERM FINANCE FROM SPONSORS

| | | |
|----------------------|-------------------|-------------------|
| Ashfaq Ahmed Teli | 27,611,908 | 25,000,000 |
| Mohammad Ali Teli | 25,000,000 | 25,000,000 |
| A. Razak Haji Sattar | 5,970,075 | — |
| Jamila A. Ghaffar | 746,259 | — |
| Muhammad Asif Teli | 2,611,908 | — |
| | 61,940,150 | 50,000,000 |

This represents interest free loan obtained from sponsors. The sponsors have an option to convert above loan into equity subject to completion of necessary legal formalities from various authorities.

7. LONG TERM FINANCE FROM RELATED PARTY

This represents unsecured loan obtained from Naz Textile (Pvt.) Limited, no markup will be charged for the first year. Thereafter, the lender will charge actual financing cost to the company. The lender has an option to convert above loan into equity subject to completion of necessary legal formalities from various authorities.



NAKSHBANDI INDUSTRIES LIMITED

8. Long Term Finance - Secured

| PARTICULARS | Habib Bank Limited | | Bank Al-Habib Limited | | Askari Bank Limited. | | Standard Chartered Bank | | Bank Al-Falah Limited | | Habib Metropolitan Bank | | Total | |
|--|--|--------------------|-----------------------|------------------|----------------------|--------------------|-------------------------|--------------|-----------------------|--------------|-------------------------|-------------------|--------------------|--------------------|
| | Loan No. 3 | Loan No. 10 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 | Loan No. 1 |
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees |
| Opening balance as on July 1, 2007 | 37,500,000 | 138,881,027 | 331,984,000 | 21,875,000 | 30,000,000 | 60,000,000 | 60,000,000 | 21,572,000 | 24,750,000 | 21,572,000 | 24,750,000 | 60,000,000 | 778,762,027 | 537,150,000 |
| Charged during the year | — | 74,800,000 | — | — | 55,000,000 | 193,807,158 | — | — | — | — | — | — | 341,179,158 | 402,359,000 |
| Restructure during the year | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Outstanding balance | 37,500,000 | 213,681,027 | 331,984,000 | 21,875,000 | 85,000,000 | 253,807,158 | 253,807,158 | 21,572,000 | 42,322,000 | 21,572,000 | 42,322,000 | 60,000,000 | 1,119,941,185 | 939,509,000 |
| Net reversal of current maturity | (37,500,000) | (37,300,000) | (40,599,091) | (6,250,000) | (30,000,000) | (45,000,000) | (45,000,000) | (21,572,000) | 4,000,000 | (21,572,000) | (5,664,825) | — | (187,372,000) | (160,746,973) |
| Repaid during the year | — | (22,255,560) | — | — | (6,729,677) | (25,535,474) | (25,535,474) | — | — | — | — | — | (126,609,627) | — |
| Net outstanding balance | — | 154,125,467 | 291,384,909 | 15,625,000 | 48,270,323 | 183,271,684 | 183,271,684 | — | 40,657,175 | — | 40,657,175 | 60,000,000 | 825,959,558 | 778,762,027 |
| Current portion | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Over dues | — | 38,646,000 | 73,080,000 | 6,250,000 | 20,526,500 | 77,897,000 | 77,897,000 | — | 10,188,000 | — | 10,188,000 | 7,500,000 | 247,137,500 | 54,878,027 |
| Current Maturity | — | (38,646,000) | (73,080,000) | (6,250,000) | (20,526,500) | (77,897,000) | (77,897,000) | — | (10,188,000) | — | (10,188,000) | (7,500,000) | (247,137,500) | (193,978,027) |
| Closing balance as on June 30, 2008 | — | 115,479,467 | 218,304,909 | 9,375,000 | 27,743,823 | 105,374,684 | 105,374,684 | — | 30,469,175 | — | 19,575,000 | 52,500,000 | 578,822,058 | 584,784,000 |
| Significant terms and conditions: | | | | | | | | | | | | | | |
| Installments | Quarterly | | | | | | | | | | | | | |
| No. of installment | 16 | | | | | | | | | | | | | |
| Installment amount (Rupees) | 9,632,942 | | | | | | | | | | | | | |
| Repayment date | 31-Mar-09 | | | | | | | | | | | | | |
| Rate of mark up per 1000 per day | 3 month KIBOR + 1% | | | | | | | | | | | | | |
| Securities | Pari-passu charge and equitable mortgage of the fixed and current assets of the Company. | | | | | | | | | | | | | |
| 8.1 | During the year, the Company has finalized the restructuring of long term loans with banks which was commenced last year. As per terms of restructuring, along with the principal, a portion of short term borrowings outstanding on date of restructuring was converted into long term debt. | | | | | | | | | | | | | |
| 8.2 | As per agreement reached with Habib Bank, current maturity of long term loan 3 is restructured into long term loan 10 along with running finance facility. Half yearly and monthly installments of loans are restructured into 16 quarterly installments payable in five and half years, including 18 months grace period. Eighteen months grace period is granted for principal & mark up. 6 months Kibor+1.75% (Loan 3) and 1 month Kibor+1.25% (Loan 10) changed to 3 months Kibor+1%. Interest will be accrued but not charged for first 18 months. In case of default in any payment during the loan term of five & half years including 18 months grace period, bank would recover interest accrued in grace period. Grace period would expire at December 31, 2008. | | | | | | | | | | | | | |
| 8.3 | As per agreement with Askari Bank, Export running finance facility is restructured into Loan 1 and running finance. Current maturity of Loan 1 is also restructured with grace period of eighteen months for principal and interest payments. Half yearly installments are converted into 16 quarterly installments commencing from January 01, 2010. Mark up rate revised from 6 months T-bill+2% to 3 months Kibor+1%. In case of default in any payment during the loan term, bank will recover interest accrued in grace period. Grace period would expire at September 30, 2009. As per agreement, if company fails to pay installment, the bank may terminate agreement and enforce the security interest. | | | | | | | | | | | | | |
| 8.4 | As per restructuring agreement with Standard Chartered Bank, whole facility of running finance is restructured into long term loan 1. Half yearly installments are restructured into 16 quarterly installments. Mark-up rate revised from 6 months T-bill+1.5% to 3 months Kibor+1%. Company agreed to pay the sale proceeds of fabric processing unit as part payment of outstanding principal, in three tranches by December 31, 2008. Failure to pay said amounts by due date would ensure termination of agreement and enforcement of security interest. The Bank has agreed to allow eighteen months grace period for principal and interest payments. Grace period would end at June 30, 2009. It is also agreed that proceeds of fabric processing plant and head office building will be shared with the lenders (HBL, BAH, ABL, BAFL and SCB) in proportion to the outstanding restructured amount. | | | | | | | | | | | | | |
| 8.5 | In case of default in any payments during the loan term, the bank shall be entitled to recover the entire amount of grace mark up along with all outstanding amounts in terms of this agreement. Loan 1 of Bank Al Falah Limited is restructured into Loan 7. Eighteen months grace period is granted for principal and interest payments that would expire at September 30, 2009. Interest would be accrued but not charged for first 18 months. In case of default in any payment during the loan term of five & half years including 18 months grace period, bank would recover interest accrued in grace period. Half yearly installments are changed into 16 quarterly installments. Mark up rate revised from 3 months Kibor+1.5% to 3 months Kibor+1%. | | | | | | | | | | | | | |



| | June 30, 2008 Rupees | June 30, 2007 Rupees |
|---|-------------------------------------|-------------------------------------|
| 9. LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE | | |
| Opening balance | 21,028,779 | 27,324,531 |
| Obtained during the year | — | 748,000 |
| Repaid during the year | (10,502,361) | (7,043,752) |
| | 10,526,418 | 21,028,779 |
| Transfer to current portion | (10,526,418) | (10,217,420) |
| Closing Balance | — | 10,811,359 |

The future minimum lease payment and the period in which they become due are :

| | 2008 | | 2007 | |
|--|--|-------------------------------------|--|-------------------------------------|
| | Minimum Lease Payments Rupees | Present Value Rupees | Minimum Lease Payments Rupees | Present Value Rupees |
| Within one year | 12,869,958 | 10,526,418 | 11,345,420 | 10,217,420 |
| After one year but not more than five years | — | — | 12,292,859 | 10,811,359 |
| Total minimum lease payments | 12,869,958 | 10,526,418 | 23,638,279 | 21,028,779 |
| Less : Amount representing finance charges | (2,343,540) | — | (2,609,500) | — |
| Present value of minimum lease payment | 10,526,418 | 10,526,418 | 21,028,779 | 21,028,779 |
| Less : Current portion | (10,526,418) | (10,526,418) | (10,217,420) | (10,217,420) |
| | — | — | 10,811,359 | 10,811,359 |

These represents finance leases entered into with leasing companies for plant and machinery and vehicles. Rates of finance charges ranging from 14% to 15.24% and 3 months KIBOR+ 3.5% (2007: 10.49% to 14%) per annum are used discounting factors.

These are secured against demand promissory notes.

No restriction has been imposed on the company under the lease arrangement


9.1 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 |
|--|-----------|--------------------------------|------------------------|--------------------|--------------------------|---------------------------|
| Plant & Machinery | | | | | | |
| Megatern Hemming Machine | — | 3 Months KIBOR+3.50% | 224,735 | 10 | Monthly | July 25, 2006 |
| Fong's High Temperature Package Dyeing Machine | — | 14.00 | 450,500 | 11 | Monthly | August 20, 2006 |
| Vehicles | | | | | | |
| Suzuki Cultus AKN-893 | 55,500 | 15.32 | 16,253 | 36 | Monthly | January 1, 2006 |
| Suzuki Cultus AKN-895 | 55,500 | 15.32 | 16,253 | 36 | Monthly | January 1, 2006 |
| Suzuki Cultus AKN-897 | 55,500 | 15.32 | 16,253 | 36 | Monthly | January 1, 2006 |
| Suzuki Cultus AKN-901 | 55,500 | 15.32 | 16,253 | 36 | Monthly | January 1, 2006 |
| Suzuki Mehran AKN-892 | 31,500 | 15.32 | 8,994 | 36 | Monthly | January 1, 2006 |
| Suzuki Mehran AKR-804 | 31,500 | 15.32 | 8,994 | 36 | Monthly | January 1, 2006 |
| Suzuki Mehran AKR-809 | 31,500 | 15.32 | 8,994 | 36 | Monthly | January 1, 2006 |
| Suzuki Mehran AKR-810 | 31,500 | 15.32 | 8,994 | 36 | Monthly | January 1, 2006 |
| Suzuki Baleno AGK-467 | 74,900 | 15.24 | 21,646 | 36 | Monthly | February 1, 2006 |
| Suzuki Baleno AGK-468 | 74,900 | 15.24 | 21,646 | 36 | Monthly | February 1, 2006 |
| Suzuki Baleno AGK-983 | 74,900 | 15.24 | 21,646 | 36 | Monthly | February 1, 2006 |
| Suzuki Baleno AKJ-811 | 74,900 | 15.24 | 21,646 | 36 | Monthly | February 1, 2006 |
| Honda City (M/T) AKU-103 | 88,600 | 15.24 | 28,921 | 36 | Monthly | February 1, 2006 |
| Hyndai Shehzore KN-8952 | 64,900 | 15.24 | 15,403 | 36 | Monthly | February 1, 2006 |
| Mitsubishi Minibus-L300 | 114,900 | 15.24 | 33,488 | 36 | Monthly | May 2, 2006 |
| 1 Suzuki Ravi Pickup CNG | 34,400 | 15.24 | 10,026 | 36 | Monthly | May 2, 2006 |
| 1 Suzuki Bolan CNG | 40,400 | 15.24 | 11,775 | 36 | Monthly | May 2, 2006 |

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

| | June 30, 2008 | June 30, 2007 |
|---------------------------------|--------------------------|--------------------------|
| | <u>Rupees</u> | <u>Rupees</u> |
| 10. DEFERRED LIABILITIES | | |
| Gratuity | — | 11,827,633 |

During the year the management has decided to withdraw the gratuity scheme and replaced with provident fund, hence the liability in respect of gratuity has been transferred to accrued expenses.

| | 11.1 | 11.2 | 196,847,488 | 259,611,508 |
|--|-------------|-------------|---------------------------|---------------------------|
| 11. TRADE AND OTHER PAYABLES | | | | |
| Creditors | | | 196,847,488 | 259,611,508 |
| Accrued Expenses | | | 36,726,303 | 26,898,829 |
| Unclaimed Dividend | | | 212,428 | 212,428 |
| Workers Profit Participation Fund | 11.1 | | 15,637 | 15,637 |
| Right Shares Subscription | | 11.2 | 105,323 | 105,323 |
| Others | | | 1,753,996 | 472,871 |
| Less : Liabilities classified as held for sale | | | (281,913) | — |
| | | | <u>235,379,262</u> | <u>287,316,596</u> |



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| | June 30, 2008 <u>Rupees</u> | June 30, 2007 <u>Rupees</u> |
|--|-----------------------------------|-----------------------------------|
| 11.1 Worker's Profit Participation Fund | | |
| Opening Balance | 15,637 | 256,143 |
| Add: Interest for year | — | 15,637 |
| | 15,637 | 271,780 |
| Less: Payment during the year | — | (256,143) |
| Closing Balance | 15,637 | 15,637 |
| 11.2 This represent the balance refundable to applicants for right shares called but were subsequently cancelled. The Security and Exchange Commission of Pakistan (formerly Corporate Law Authority), Islamabad granted permission in 1995 for cancellation | | |
| Right shares subscription money | 105,323 | 105,323 |
| 12. ACCRUED INTEREST/MARK-UP | | |
| Long-term finances | 2,643,445 | 15,593,073 |
| Long-term finances from related party | 487,705 | — |
| Short-term finances | 6,467,097 | 20,172,481 |
| Lease finances | 44,358 | |
| | 9,642,605 | 35,765,554 |
| 13. SHORT TERM BORROWING - SECURED | | |
| Export Refinance | | |
| - Bank Alfalah Limited | 80,000,000 | — |
| - Askari Bank Limited | — | 75,000,000 |
| - Habib Metropolitan Bank Limited | 63,800,000 | — |
| | 143,800,000 | 75,000,000 |
| Running / Short Term Finances | | |
| - Bank Al-Habib Limited | — | 2,138,863 |
| - Habib Bank Limited | — | 20,797,318 |
| - Bank Alfalah Limited | 19,960,854 | 99,924,421 |
| - Standard Chartered Bank (Pakistan) Limited | — | 148,930,413 |
| - ABN Amro Bank | — | 8,774,077 |
| - Askari Bank Limited | 47,056,995 | 2,584,852 |
| - Habib Metropolitan Bank Limited | 90,800,671 | 123,204,556 |
| | 157,818,520 | 406,354,500 |
| 13.1 | 301,618,520 | 481,354,500 |
| 13.1 This represent short term working capital finance facilities of Rs 302 million (2007: Rs. 481 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 is 3 months KIBOR+1% and 3 | | |



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months KIBOR + 2% per annum (2007: 9% to 12%). The rates of mark-up for Export Re-finance is 7.50% and 6 months KIBOR + 2% per annum (2007: 6% to 9%).

- 13.2** As disclosed in Note 1.3 the company has successfully negotiated restructuring arrangements with the banks and as a results following amounts of short term loans and current portion of long terms liabilities have been restructured and transferred to long term loans:

| | June 30, 2 0 0 8 Rupees | June 30, 2 0 0 7 Rupees |
|--|--|--|
| Banks | | |
| Bank Al Habib Limited | — | 331,984,000 |
| Habib Bank Limited | 74,800,000 | — |
| Askari Bank Limited | 55,000,000 | — |
| Standard Chartered Bank (Pakistan) Limited | 193,807,158 | — |
| Bank Alfalah Limited | 17,572,000 | — |
| | 341,179,158 | 331,984,000 |

14. CURRENT PORTION OF LONG TERM LIABILITIES

| | | |
|---|----------------------|--------------------|
| Current portion of long term loans | 247,137,500 | 193,978,027 |
| Current portion of lease liabilities | 10,526,418 | 10,217,420 |
| Less: Liabilities classified as held for sale | (134,019,592) | — |
| | 123,644,326 | 204,195,447 |

15. CONTINGENCIES AND COMMITMENTS

- (i) Guarantees issued by commercial banks to Sui Southern Gas Company Limited on behalf of the company Rs. 37.583 million (2007: Rs. 37.583 million)
- (ii) Aggregate commitments for capital expenditure Rs. Nil (2007: Rs. 1.2 million).
- (iii) Commitments for export against orders/letters of credit Rs. 700 million (2007: Rs. 235 million).
- (iv) If Company does not meet its payments commitments in respect of loan amounts as agreed in restructured agreements Rs.194,666,240 (2007:Rs.Nil) would become chargeable as mark up for the grace period of 18 months.
- (v) Karachi Water & Sewerage Board raised an arrears of water charges amounting to Rs. 34,195,229 which has not been incorporated in these accounts. The management of the company believes that the said arrears amount has been billed to the company due to erroneous meter reading by the department. The company raised the matter with the appropriate authority through its legal counsel and is optimistic that the department will reverse the arrear appeared in the bills

16. PROPERTY, PLANT AND EQUIPMENT

| | | | |
|---|------|----------------------|----------------------|
| Operating Property, Plant & equipment | 16.1 | 1,400,684,326 | 1,632,458,590 |
| Capital work in progress | 16.2 | 52,580,745 | 16,054,531 |
| Less : Assets classified as held for sale land, building and fabric plant | | (88,041,798) | — |
| | | 1,365,223,273 | 1,648,513,121 |



16.1 PROPERTY, PLANT AND EQUIPMENT

| Particulars | Cost | | | | Depreciation | | | | | Written Down value as at June 30, 2008 |
|--|---------------------|-----------------------------|--|---------------------|--------------|---------------------|-----------------------------------|--------------------|---------------------|--|
| | As on July 01, 2007 | Additions/ (Disposals) | Surplus on Revaluation of Fixed Assets | As on June 30, 2008 | Rate % | As on July 01, 2007 | Reversal on disposals/ Adjustment | For the Year Ended | As on June 30, 2008 | |
| Leasehold land | 352,100,000 | — | — | 352,100,000 | — | — | — | — | — | 352,100,000 |
| Leasehold land Office | 27,600,000 | — | — | 27,600,000 | — | — | — | — | — | 27,600,000 |
| Building on leasehold land | 417,514,312 | 3,977,209 | — | 421,491,521 | 10% | 169,836,015 | — | 25,165,551 | 195,001,566 | 226,489,955 |
| Office Bldg. on leasehold land | 5,782,139 | — | — | 5,782,139 | 10% | 4,357,262 | — | — | 4,357,262 | 1,424,877 |
| Plant & machinery | 1,701,020,495 | 21,538,516 (361,597,072) | — | 1,360,961,939 | 10% | 780,027,343 | 211,467,185 | 73,338,485 | 641,898,643 | 719,063,296 |
| Electric fitting | 43,459,505 | 1,450,234 | — | 44,909,739 | 10% | 13,507,906 | — | 3,140,183 | 16,648,089 | 28,261,650 |
| Office equipments | 9,189,433 | 365,000 (516,290) | — | 9,038,143 | 15% | 6,128,189 | 242,661 | 472,892 | 6,358,420 | 2,679,723 |
| Computers | 19,441,717 | 1,110,636 (276,207) | — | 20,276,146 | 30% | 13,199,986 | 192,559 | 2,180,616 | 15,188,043 | 5,088,103 |
| Furniture & Fixtures | 17,782,975 | 529,147 (623,376) | — | 17,688,746 | 10% | 8,052,673 | 166,795 | 980,287 | 8,866,165 | 8,822,581 |
| Vehicles | 28,798,460 | 3,692,360 (8,284,895) | — | 24,205,925 | 20% | 17,027,066 | 5,392,841 | 2,514,340 | 14,148,565 | 10,057,360 |
| Arms & Ammunition | 41,995 | — | — | 41,995 | 15% | 11,246 | — | 4,612 | 15,858 | 26,137 |
| | 2,622,731,031 | 32,663,102 (371,297,840) | — | 2,284,096,293 | | 1,012,147,686 | 217,462,041 | 107,796,966 | 902,482,611 | 1,381,613,682 |
| Assets subject to finance Lease | | | | | | | | | | |
| Plant & machinery | 18,622,016 | — | — | 18,622,016 | 10% | 2,917,529 | — | 1,570,449 | 4,487,978 | 14,134,038 |
| Vehicles | 9,908,000 | — | — | 9,908,000 | 20% | 3,737,242 | — | 1,234,152 | 4,971,394 | 4,936,606 |
| | 28,530,016 | — | — | 28,530,016 | | 6,654,771 | — | 2,804,601 | 9,459,372 | 19,070,644 |
| Total Rupees:2008 | 2,651,261,047 | 32,663,102 (371,297,840) | — | 2,312,626,309 | | 1,018,802,457 | 217,462,041 | 110,601,567 | 911,941,983 | 1,400,684,326 |
| Total Rupees:2007 | 2,412,022,874 | 254,273,601 (12,077,427) | — | 2,651,261,047 | | 881,157,185 | 6,225,686 | 143,870,958 | 1,018,802,457 | 1,632,458,590 |

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

| | June 30, 2008 Rupees | June 30, 2007 Rupees |
|------------------------------|-------------------------------------|-------------------------------------|
| - Cost of goods manufactured | 106,963,160 | 139,416,245 |
| - Administrative expenses | 3,638,407 | 4,454,713 |
| | 110,601,567 | 143,870,958 |



16.1.1 Details of Disposal of Operating Fixed Assets during the year are as follows :

| Particulars | Original Cost | Accumulated Depreciation | W.D.V. | Sale Proceeds | Gain/(Loss) on Sales | Mode of Disposal | Name of Purchaser |
|-----------------------|------------------|--------------------------|------------------|------------------|----------------------|------------------|--|
| Motor Vehicles | | | | | | | |
| Honda City | 735,000 | 530,282 | 204,718 | 225,000 | 20,282 | Negotiation | Mr. Jan Alam S/o. Nafiz Alam, House No. B - 8/3-III, Nazimabad, Krachi Central. |
| Honda Civic | 1,221,315 | 689,799 | 531,516 | 538,000 | 6,484 | Negotiation | Mr. Rafiq S/o Habib Khan Roundesh Dakhana Sauoli Tehseel, Deer, Zila Uper Dir |
| Honda Civic | 1,260,000 | 711,648 | 548,352 | 565,000 | 16,648 | Negotiation | Mr. Amjad Ali S/o. Jahangeer Khan Gali / Mohalla Konga, Dakhana Daggar Tehseel Daggar. |
| Honda Civic | 1,027,300 | 369,828 | 657,472 | 669,340 | 11,868 | Negotiation | Mr. Amjad Ali S/o. Jahangeer Khan Gali / Mohalla Konga, Dakhana Daggar Tehseel Daggar. |
| Honda Civic | 1,041,400 | 855,762 | 185,638 | 310,000 | 124,362 | Negotiation | Mr. Abdul Latif S/o. Umer Khan House No. A-164, Block 13 C, Gulshan-e-Iqbal, Karachi |
| Suzuki Baleno | 739,000 | 481,710 | 257,290 | 140,000 | (117,290) | Negotiation | Mr. Waseem Mirza S/o. Mirza Abdul Rahim Baig House No. 32-A, Block 10A, Gulshan-e-Iqbal, Karachi East. |
| Mazda Van | 65,880 | 61,162 | 4,718 | 150,000 | 145,282 | Negotiation | Mrs. Samira Sadiq W/o. Sheikh Muhammad Sadiq House #. 7/24, Street # 3, Dehli Mercantile Society, Shaheed-e-Millat Road, Karachi. |
| Suzuki Mehran | 319,000 | 262,136 | 56,864 | 85,500 | 28,636 | Negotiation | Mr. Abdul Saboor S/o. H. A. Ghafoor Sana Terrace, Shoe Market Garden, Flat No. A-608, South Karachi. |
| Suzuki Mehran | 333,000 | 258,800 | 74,200 | 110,000 | 35,800 | Negotiation | Mr. Aijaz S/o. Usman Ahmed Flat No. 2, Plot No. 113, Overseas Apartment, O.C.H.S., Block 7/8, Karachi. |
| Suzuki Mehran | 314,000 | 221,120 | 92,880 | 100,000 | 7,120 | Negotiation | Mr. Kamran S/o. Ghulam Muhammad Madina Manzil, Flat No. 1213/2 Azizabad, Karachi. |
| Suzuki Mehran | 299,000 | 215,720 | 83,280 | 85,000 | 1,720 | Negotiation | Mr. Kamran S/o. Ghulam Muhammad Madina Manzil, Flat No. 1213/2 Azizabad, Karachi. |
| Suzuki Bolan | 200,000 | 194,019 | 5,981 | 17,000 | 11,019 | Negotiation | Mr. Nusrat Iqbal S/o. Mushtaq Ahmed House No. 1-B-1/2, Nazimabad No. 1, Tehsil Zila Wasti, Karachi |
| Hyundai Shehzore | 589,000 | 424,947 | 164,053 | 180,000 | 15,947 | Negotiation | M/s. Naz Textiles (Pvt) Ltd E/32-A, Estate Avenue, S.I.T.E., Karachi. |
| Motor Cycles | | | | | | | |
| Honda CDI | 69,000 | 44,977 | 24,023 | 6,000 | (18,023) | Negotiation | Mr. Ghulam Kadir Baloch S/o. Muhammad Usman Baloch Gali/Mohalla Malir City, Bin Qasim, Dakhana Malir City, Saleh Mohd. Goth, Tehseel Zila Malir, |
| Honda CDI | 47,000 | 46,128 | 872 | 5,000 | 4,128 | Negotiation | Mr. Muhammad Altaf S/o. Muhammad Dawood Ismail House No. 110, Haji Lemo Goth, Block-3, Gulshan-e-Iqbal, Karachi. |
| Honda CDI | 25,000 | 24,804 | 196 | 5,000 | 4,804 | Negotiation | Mr. Hussain S/o. Muhammad Jari House No. A-53/6 Sector G-11, Godhra Colony, Karachi. |
| | 8,284,895 | 5,392,842 | 2,892,053 | 3,190,840 | 298,787 | | |



| Particulars | Original Cost | Accumulated Depreciation | W.D.V. | Sale Proceeds | Gain/(Loss) on Sales | Mode of Disposal | Name of Purchaser |
|--|--------------------|--------------------------|--------------------|--------------------|----------------------|------------------|---|
| Furnitures and fixtures | 623,376 | 166,796 | 456,580 | 456,581 | 1 | Negotiation | M/s. Naz Textiles (Pvt) Ltd. E/32-A, Estate Avenue, S.I.T.E., Karachi |
| Office Equipment | 516,290 | 242,661 | 273,629 | 234,878 | (38,751) | Negotiation | M/s. Naz Textiles (Pvt) Ltd. E/32-A, Estate Avenue, S.I.T.E., Karachi |
| Computers, printers and accessories | 276,207 | 192,559 | 83,648 | 90,282 | 6,634 | Negotiation | M/s. Naz Textiles (Pvt) Ltd. E/32-A, Estate Avenue, S.I.T.E., Karachi. |
| Plant and Machinery | | | | | | | |
| Garment machinery | 5,631,663 | 899,684 | 4,731,979 | 4,783,645 | 51,666 | Negotiation | M/s. Naz Textiles (Pvt) Ltd. E/32-A, Estate Avenue, S.I.T.E., Karachi. |
| Finishing machine | 1,220,700 | 1,032,390 | 188,310 | 188,310 | - | Negotiation | Mr. Moiz Qadri Karachi |
| Warping machine | 2,421,238 | 2,043,682 | 377,556 | 400,000 | 22,444 | Negotiation | Mr. Haji Younus Karachi |
| Containers | 1,019,217 | 610,401 | 408,816 | 406,000 | (2,816) | Negotiation | Mr. Altamash Ahmed Karachi. |
| Containers | 236,500 | 141,638 | 94,862 | 100,000 | 5,138 | Negotiation | Mr. Abid Karachi |
| Boiler | 1,235,932 | 805,544 | 430,388 | 400,000 | (30,388) | Negotiation | Master Textile Processing Mills Near Samana Pull, Sargodha Road, Faisalabad |
| Boiler | 1,164,454 | 514,039 | 650,415 | 665,254 | 14,839 | Negotiation | Mr. Fazal Karim Karachi |
| Diesel Generator | 1,297,953 | 900,119 | 397,834 | 406,798 | 8,964 | Negotiation | Mr. Muhammad Akhter Karachi |
| Old fabric processing machines | 130,659,299 | 86,345,824 | 44,313,476 | 43,500,000 | (813,476) | Negotiation | M.N. Textile Mills (Pvt) Ltd 3, Mandviwala Chambers, Talpur Road, Karachi. |
| Old fabric processing machines | 53,432,740 | 25,591,582 | 27,841,158 | 27,793,568 | (47,590) | Negotiation | Soorty Enterprises (Pvt) Ltd Plot#332-333-335, 261 to 266, Deh Landhi Tappo Landhi Bin Qasim Town, National Highway, Karachi. |
| Old fabric processing machines | 43,295,562 | 21,992,054 | 21,303,508 | 21,456,881 | 153,373 | Negotiation | Azgard Nine Ltd Ismail Aiwani-I Science Bldg Ferozepur Road, Lahore. |
| Old fabric processing machines | 119,981,814 | 70,590,228 | 49,391,586 | 50,392,605 | 1,001,019 | Negotiation | Amanat Shah Weaving Processing Ltd Head Office Ali Bhabon, 5th Floor, 9, Rajuk Avenue, Motijhell, C/A Dhaka, Bangladesh |
| Total Machinery | 361,597,072 | 211,467,185 | 150,129,888 | 150,493,061 | 363,173 | | |
| Rupees- June-2008 | 371,297,840 | 217,462,043 | 153,835,798 | 154,465,642 | 629,844 | | |



| | June 30, 2 0 0 8 Rupees | June 30, 2 0 0 7 Rupees |
|--------------------------------------|--|--|
| 16.2 CAPITAL WORK-IN-PROGRESS | | |
| Opening Balance | 16,054,531 | 149,363,889 |
| Additions during the year: | | |
| Machines under installation | 36,526,214 | 25,614,504 |
| Building under construction | — | 46,594,262 |
| | 36,526,214 | 72,208,766 |
| Transferred to Fixed Assets | — | (205,518,124) |
| Closing Balance | 16.21 52,580,745 | 16,054,531 |

16.2.1 This represents weaving, warping and sizing machines installation in progress.

17. STORES, SPARES AND CHEMICALS

| | | |
|---|--------------------|-------------|
| Stores | 7,522,322 | 9,708,330 |
| Chemicals | 15,414,622 | 36,741,916 |
| Spare parts | 56,601,526 | 89,377,704 |
| Less : Assets classified as held for sale-store & spare | (2,391,663) | — |
| | 77,146,807 | 135,827,950 |

18. STOCK-IN-TRADE

| | | |
|---|--------------------|-------------|
| Raw Materials | 48,721,333 | 24,987,610 |
| Work-in-Process | 37,691,012 | 28,510,930 |
| Finished Goods | 197,774,279 | 205,666,298 |
| Less : Assets classified as held for sale | (892,676) | — |
| | 283,293,948 | 259,164,838 |

19. TRADE DEBTS - Considered Good

| | | |
|---|--------------------|------------|
| Local - Unsecured | 25,707,382 | 39,926,984 |
| Bills under collection - Secured | 27,885,751 | 41,164,829 |
| Less : Assets classified as held for sale | (3,492,783) | — |
| | 50,100,350 | 81,091,813 |

19.1 These are secured by irrevocable Letter of Credit and Export Documents.

20. LOANS AND ADVANCES

Considered good :

| | | |
|-----------|----------------------------------|-------------------|
| Suppliers | 5,071,516 | 632,462 |
| Employees | 3,329,435 | 6,030,001 |
| Others | 4,183,248 | 4,279,973 |
| | 20.1 12,584,199 | 10,942,436 |

20.1 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.



| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|--|---|---|
| 21. SHORT TERM PREPAYMENTS | | |
| Lease finance security deposits | 1,940,800 | — |
| Prepayments | 2,611,642 | 2,282,010 |
| | <u>4,552,442</u> | <u>2,282,010</u> |
| 22. OTHER RECEIVABLES | | |
| Sales tax refundable | 19,507,822 | 22,898,129 |
| Export rebate | 3,911,874 | 940,857 |
| Receivable research & development support | 5,363,095 | 4,438,642 |
| Receivable income on fixed deposits | 432,996 | — |
| | <u>29,215,787</u> | <u>28,277,628</u> |
| 23. CASH AND BANK BALANCES | | |
| Cash in hand | 40,526 | 3,012,551 |
| Cash at banks - current and multiplier accounts | 259,658,861 | 3,213,241 |
| | <u>259,699,387</u> | <u>6,225,792</u> |
| Less : Asset classified as held for sale | <u>(45,977,794)</u> | — |
| | <u>213,721,593</u> | <u>6,225,792</u> |
| 24. NON-CURRENT ASSETS HELD FOR SALE | | |
| Fabric processing plant is presented as a disposal group held for sale. Efforts to sell the disposal group have been commenced, and sale is expected to materialize in current calendar year. At June 30, 2008 the disposal group comprise assets of Rs. 140,796,714/= and liabilities of Rs. 134,301,505/=. | | |
| 24.1 Assets classified as held for sale | | |
| Plant and machinery | 59,016,921 | — |
| Land and building | 29,024,877 | — |
| Stores, spares and chemicals | 2,391,663 | — |
| Stock-in-trade | 892,676 | — |
| Trade debts | 3,492,783 | — |
| Cash at bank - Multiplier Account | 45,977,794 | — |
| | <u>140,796,714</u> | <u>—</u> |
| 24.2 Liabilities classified as held for sale | | |
| Trade and other payables | 281,913 | — |
| Current maturity of long term loan | 134,019,592 | — |
| | <u>134,301,505</u> | <u>—</u> |



| | | June 30, 2008 <u>Rupees</u> | June 30, 2007 <u>Rupees</u> |
|--|--------|--|--|
| 25. SALES - Net | | | |
| Local | | 149,932,333 | 99,194,971 |
| Export | | 1,119,984,007 | 1,067,969,339 |
| Export rebate | | 8,817,736 | 7,469,974 |
| | | 1,278,734,076 | 1,174,634,284 |
| Less: Sales tax | | (158,388) | (72,522) |
| Commission | | (1,725,489) | (4,441,507) |
| | | (1,883,877) | (4,514,029) |
| | | 1,276,850,199 | 1,170,120,255 |
| 26. COST OF SALES | | | |
| Opening stock of finished goods | | 178,656,128 | 503,091,215 |
| Add: Cost of goods manufactured | 26.1 | 1,182,562,722 | 963,650,343 |
| | | 1,361,218,850 | 1,466,741,558 |
| Less: Closing stock of finished goods | | (196,881,603) | (178,656,128) |
| | | 1,164,337,247 | 1,288,085,430 |
| 26.1 Cost of Goods Manufactured | | | |
| Raw materials consumed | 26.1.1 | 623,175,471 | 425,001,784 |
| Stores consumed | | 149,770,576 | 108,148,130 |
| Salaries, wages and benefits | 26.1.2 | 126,907,438 | 101,168,228 |
| Fuel, power and water | | 105,032,959 | 84,969,964 |
| Manufacturing charges | | 54,431,219 | 66,672,809 |
| Insurance | | 5,297,429 | 8,081,877 |
| Repair and maintenance | | 11,524,254 | 30,420,903 |
| Building repairs | | — | 529,144 |
| Other manufacturing expenses | | 8,640,298 | 4,320,158 |
| Depreciation | | 106,963,160 | 113,637,866 |
| Work-in-process opening | | 28,510,930 | 49,210,410 |
| Work-in-process closing | | (37,691,012) | (28,510,930) |
| | | 1,182,562,722 | 963,650,343 |



NAKSHBANDI INDUSTRIES LIMITED

| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|---|--------------------------------------|--------------------------------------|
| 26.1.1 Raw Material Consumed | | |
| Opening stock | 24,987,610 | 37,019,538 |
| Purchases during the year | 646,909,194 | 412,969,856 |
| | <u>671,896,804</u> | <u>449,989,394</u> |
| Less : Closing stock | <u>(48,721,333)</u> | <u>(24,987,610)</u> |
| | <u><u>623,175,471</u></u> | <u><u>425,001,784</u></u> |
| 26.1.2 Its includes employees' retirement benefits amounting to Rs. Nil (2007: 926,755). | | |
| 27. ADMINISTRATIVE EXPENSES | | |
| Salaries & Benefits | 27,837,013 | 24,416,700 |
| Provident Fund | 1,110,031 | 508,181 |
| Bad debts expenses | 22,771 | 36,772 |
| Rent, Rates & Taxes | 1,461,577 | 3,849,939 |
| Vehicle Running Expenses | 8,038,997 | 8,625,836 |
| Conveyance & Traveling | 424,866 | 1,312,585 |
| Printing & Stationery | 2,102,502 | 3,779,687 |
| Postage, Telegram & Telephone | 1,917,855 | 2,935,204 |
| Staff welfare | 1,778,922 | 3,000,757 |
| Legal and professional | 4,629,098 | 3,743,041 |
| Miscellaneous | 1,703,947 | 3,708,693 |
| Depreciation | 3,638,407 | 4,454,713 |
| | <u>54,665,986</u> | <u>60,372,108</u> |
| 28. SELLING AND DISTRIBUTION EXPENSES | | |
| Freight and insurance | 75,629,292 | 25,531,567 |
| Forwarding charges | 9,181,779 | 10,385,881 |
| Sales promotion | 1,101,293 | 608,884 |
| Trademark registration charges | 15,000 | — |
| Export development surcharge | 3,660,482 | 2,838,349 |
| Advertisement | 180,707 | 138,486 |
| Market research | 3,453,275 | 4,808,590 |
| Exhibitions | 870,265 | 4,247,589 |
| | <u>94,092,093</u> | <u>48,559,346</u> |
| 29. OTHER OPERATING INCOME/(CHARGES) | | |
| Gain / (loss) on disposal of fixed assets | 629,844 | 19,670 |
| (Loss) on sale of stores spare and chemicals | (1,806,347) | — |
| Audit fees 29.1 | (611,800) | (260,000) |
| Donations 29.2 | (52,600) | (449,400) |
| Interest on fixed deposit | 2,762,490 | — |
| Add: Loss on discontinued operation 34.6 | 532,930 | — |
| | <u>1,454,517</u> | <u>(689,730)</u> |



| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|------------------------------------|--------------------------------------|--------------------------------------|
| 29.1 Auditors' remuneration | | |
| Audit fee | 500,000 | 200,000 |
| Fee for the half yearly review | 100,000 | 60,000 |
| Out of pocket expenses | 11,800 | — |
| | <u>611,800</u> | <u>260,000</u> |

29.2 None of the directors and their spouses had any interest in these donations.

30. FINANCE COST

Mark-up on :

| | | |
|--------------------------------------|-------------------|--------------------|
| - Long term loans | 19,900,389 | 57,217,177 |
| - Long term loans from related party | 487,705 | — |
| - Obligation under finance lease | 2,343,540 | 2,548,544 |
| - Short term running finance | 32,857,222 | 81,397,203 |
| Guarantee commission | 572,414 | 376,282 |
| Interest on WPPF | — | 15,637 |
| Bank commission & charges | 1,981,280 | 3,426,590 |
| | <u>58,142,550</u> | <u>144,981,433</u> |

31. PROVISION FOR TAXATION

| | | |
|---|-------------------|--------------------|
| Current | 13,216,765 | 16,000,000 |
| Less : Taxation on Discont. Operation 34.7 | (466,765) | (4,500,000) |
| | <u>12,750,000</u> | <u>11,500,000</u> |

31.1 The Income Tax Assessments of the Company have been finalized upto and including tax year 2007.

32. LOSS PER SHARE -BASIC & DILUTED -BEFORE DISCONTINUED OPERATION

| | | |
|--|----------------------|----------------|
| Net (loss) after tax and before discontinued operation | (105,683,160) | (384,067,792) |
| Number of ordinary shares | 33,889,856 | 33,889,856 |
| | <u>(3.12)</u> | <u>(11.33)</u> |



33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| Particulars | 2008 | | | | 2007 | | | |
|-------------------------|-----------------|-----------|-----------|-----------|-----------------|-----------|-----------|-----------|
| | Chief Executive | Directors | Executive | Total | Chief Executive | Directors | Executive | Total |
| Meeting Fee | — | 10,000 | — | 10,000 | — | 5,500 | — | 5,500 |
| Managerial remuneration | 1,080,000 | 880,000 | 4,483,509 | 6,443,509 | 990,000 | 786,900 | 4,076,133 | 5,853,033 |
| House Rent allowance | 432,000 | 352,000 | 1,793,538 | 2,577,538 | 396,000 | 319,410 | 1,630,454 | 2,345,864 |
| Utilities allowance | 108,000 | 88,000 | 448,554 | 644,554 | 99,000 | 78,690 | 407,614 | 585,304 |
| | 1 | 6 | 5 | 12 | 1 | 6 | 5 | 12 |

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

| | | June 30, 2008 Rupees | June 30, 2007 Rupees |
|--|-------------|-------------------------------------|-------------------------------------|
| 34. RESULTS OF DISCONTINUED OPERATION | | | |
| Sale | 34.1 | 46,676,570 | 447,174,226 |
| Cost of sale | 34.2 | (56,510,169) | (515,998,762) |
| Gross (loss) | | (9,833,599) | (68,824,536) |
| Administrative expenses | 34.4 | (2,560,931) | (9,653,351) |
| Selling expenses | 34.5 | — | (30,771,498) |
| Operating (loss) | | (12,394,530) | (109,249,385) |
| Other operating (charges) | 34.6 | (532,930) | — |
| Provision for taxation | 34.7 | (12,927,460) | (109,249,385) |
| | | (466,765) | (4,500,000) |
| (Loss) after taxation | | (13,394,225) | (113,749,385) |

During the year the company has closed fabric processing plant, which is hence classified as assets held for sale as at June 30, 2008.

34.1 Sales

| | | |
|-----------------|--------------------|-------------|
| Local | 27,514,123 | 150,085,853 |
| Export | 20,065,367 | 297,987,859 |
| Export rebate | 194,264 | 1,568,934 |
| | 47,773,754 | 449,642,646 |
| Less: Brokerage | — | (684,921) |
| Comission | (1,097,184) | (1,783,500) |
| | (1,097,184) | (2,468,421) |
| | 46,676,570 | 447,174,225 |



| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|--|---|---|
| 34.2 Cost of Sales | | |
| Opening stock of finished goods | 27,010,170 | 105,671,985 |
| Add: Cost of goods manufactured 34.3 | 30,392,675 | 437,336,947 |
| | 57,402,845 | 543,008,932 |
| Less: Closing stock of finished goods | (892,676) | (27,010,170) |
| | 56,510,169 | 515,998,762 |
| 34.3 Cost of Goods Manufactured | | |
| Purchases | 3,045,919 | 201,513,702 |
| Stores consumed | 6,858,460 | 79,775,461 |
| Salaries, wages and benefits | 8,750,794 | 40,773,135 |
| Fuel, power and water | 6,907,323 | 68,765,538 |
| Manufacturing charges | 4,327,288 | 16,196,734 |
| Repair and Maintenance | 256,568 | 175,879 |
| Other manufacturing expenses | 246,323 | 4,358,119 |
| Depreciation | — | 25,778,379 |
| | 30,392,675 | 437,336,947 |
| 34.4 Administrative Expenses | | |
| Salaries and benefits | — | 4,578,521 |
| Bad debts expenses | — | 3,263,556 |
| Rent, Rates & Taxes | 14,360 | 218,300 |
| Vehicle Running Expenses | 201,400 | 931,856 |
| Conveyance & Traveling | 6,785 | 206,170 |
| Printing & Stationery | — | 176,605 |
| Postage, Telegram & Telephone | 12,245 | 77,997 |
| Staff welfare | 52,244 | 145,550 |
| Legal and professional | 243,637 | — |
| Miscellaneous | 2,030,260 | 54,796 |
| | 2,560,931 | 9,653,351 |
| 34.5 Selling Expenses | | |
| Freight and Insurance | — | 18,808,035 |
| Forwarding charges | — | 5,094,728 |
| Sales promotion | — | 222,294 |
| Export development surcharge | — | 976,603 |
| Advertisement | — | 129,426 |
| Market research | — | 1,216,663 |
| Exhibitions | — | 4,323,749 |
| | — | 30,771,498 |



| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|---|---|---|
| 34.6 Other Operating (charges) | | |
| Gain on disposal of fixed assets | 293,331 | — |
| (Loss) on sale of stores, spares and chemicals | (826,261) | — |
| | <u>(532,930)</u> | <u>—</u> |
| 34.7 Provision for Taxation | | |
| Current | <u>466,765</u> | <u>4,500,000</u> |
| The income tax assessments of the Company have been finalized upto and including tax year 2007. | | |
| 34.8 Loss per share from discontinued operation | | |
| - basic & diluted | | |
| Net (loss) after taxation | (13,394,225) | (113,749,385) |
| Weighted average number of ordinary shares | 33,889,856 | 33,889,856 |
| | <u>(0.40)</u> | <u>(3.36)</u> |
| 34.9 Cash flow from (used in) discontinued operations | | |
| (Loss) before taxation | (12,927,460) | — |
| (Increase) in Current Assets | | |
| Stores and spares | (2,391,663) | — |
| Stock in trade | (892,676) | — |
| Trade debt | (3,492,783) | — |
| (Decrease) in Current Liabilities | | |
| Trade and other payables | 281,913 | — |
| | <u>(19,422,669)</u> | <u>—</u> |
| Cash flow from investing activities | | |
| Sales proceeds of fixed assets | 143,143,054 | — |
| Cash flow from financing activities | | |
| Cash inflow from continued operations | 22,257,409 | — |
| Repayment of long term loans | (100,000,000) | — |
| | <u>(77,742,591)</u> | <u>—</u> |
| Add: Cash and Cash Equivalent at beginning | — | — |
| Cash and cash equivalent at the end | <u>45,977,794</u> | <u>—</u> |
| Cash and Cash Equivalents | | |
| Cash and bank balance | <u>45,977,794</u> | <u>—</u> |



| | June 30, 2 0 0 8 <u>Rupees</u> | June 30, 2 0 0 7 <u>Rupees</u> |
|--|---|---|
| 35. RESEARCH AND DEVELOPMENT SUPPORT | | |
| Support on account of research and development | 39,982,434 | 40,880,338 |
| Less: Utilization | | |
| Product development 35.1 | 19,071,673 | 26,418,925 |
| Technical up gradation of production lines | 12,204,324 | 4,793,454 |
| Skill development and training | 156,120 | 587,790 |
| Up gradation of information technology | 3,421,466 | 400,000 |
| Resources conservation | — | 150,000 |
| Professional consultancy | 2,221,640 | 514,782 |
| Market research | 3,453,274 | 6,025,253 |
| Production efficiencies | 217,368 | 460,886 |
| Exhibition | 870,264 | 8,571,338 |
| | 41,616,129 | 47,922,428 |
| Net expenses | (1,633,695) | (7,042,090) |

Research and development support is allowed by the Government of Pakistan in terms of SRO 803(I)/2006 dated August 4, 2006 issued by the Ministry of Textile in order to encourage research and development in textile value added sector.

35.1 This represent product design/establishment cost, spread in different head of accounts.

36. AGGREGATE TRANSACTIONS WITH RELATED PARTIES

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

| | | |
|---|--------------------|-------------|
| Sales of goods | 522,681,333 | 20,906,850 |
| Manufacturing and service income | 98,628,299 | — |
| Sale of assets | 5,745,386 | 152,008 |
| Purchases | 42,523,956 | — |
| Purchase of assets | 36,499,460 | — |
| Manufacturing and other charges | 5,682,327 | 28,729,857 |
| loan from related party | — | 150,000,000 |
| Interest on long term loan from related party | 487,705 | — |
| Loan from sponsors | | |
| Ashfaq Ahmed Teli | 2,611,908 | 25,000,000 |
| Muhammad Ali Teli | — | 25,000,000 |
| A.Razak Haji Sattar | 5,970,075 | — |
| Jamila A. Ghaffar | 746,259 | — |
| Muhammad Asif Teli | 2,611,908 | — |

**37. CAPACITY AND PRODUCTION**

| Towel | Looms | | Production (000 Kgs) | | | | | % of Capacity Attained at normal | No. of Shifts Worked |
|-------|-----------|--------|----------------------|-----------------|------|------------|-------|----------------------------------|----------------------|
| | Installed | Worked | Capacity Standard | Capacity Normal | Own | Commercial | Total | | |
| 2008 | 98 | 98 | 8193 | 5598 | 3910 | 855 | 4765 | 85.12% | Three |
| 2007 | 96 | 96 | 8048 | 5434 | 3275 | 380 | 3655 | 67.26% | Three |

- Standard production capacity is based on manufacturers' specification.
- Normal production capacity is based on normal picks and weight of the product as per production history of the company.
- Standard production capacity has been increased to 9,281 tons from July 2008 due to commissioning of additional 15 looms.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES

The company's activities expose it to a variety of financial risk, including the affects of changes in foreign exchange rates, credit and liquidity risk associated with various financial assets and liabilities instruments is limited as there is no significant exposure to market risk in respect of such instruments. The company finance its operations through equity and management of working capital with a view to maintain a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risk arising from the company's financial instrument is limited as there is no significant exposure to market risk in respect of such instrument.

40. MARK-UP RATE RISK MANAGEMENT

Mark-up rate risk arises from the possibility that changes in interest / mark-up rates will effect the value of financial instruments. The Company monitors its exposure to fluctuation in markup rate relating to both continued and discontinued operations. The following table indicate their effective periods in which they will re-price or mature:



| Interest Bearing | | Non-Interest Bearing | Total | |
|------------------------|-------------------------|----------------------|-------|------|
| Maturity upto one year | Maturity after one year | | 2008 | 2007 |

Financial Assets

| | | | | | |
|------------------------|------------|---|-------------|--------------------|-------------|
| Long term deposits | — | — | 3,028,019 | 3,028,019 | 4,919,819 |
| Trade debtors | — | — | 50,100,350 | 50,100,350 | 81,091,813 |
| Loans and advances | — | — | 12,584,199 | 12,584,199 | 10,942,436 |
| Short term prepayments | — | — | 4,552,442 | 4,552,442 | 2,282,010 |
| Other receivable | — | — | 29,215,787 | 29,215,787 | 28,277,628 |
| Cash and bank balances | 45,977,794 | — | 213,721,593 | 259,699,387 | 6,225,792 |
| | 45,977,794 | — | 313,202,390 | 359,180,184 | 133,739,498 |

Financial Liabilities

| | | | | | |
|--------------------------------|-------------|-------------|-------------|----------------------|---------------|
| Long term finance from | | | | | |
| - sponsors | — | — | 61,940,150 | 61,940,150 | 50,000,000 |
| - related party | — | 150,000,000 | — | 150,000,000 | 150,000,000 |
| Long term finance - bank | 247,137,500 | 578,822,058 | — | 825,959,558 | 778,762,027 |
| Obligation under finance lease | 10,526,418 | — | — | 10,526,418 | 21,028,779 |
| Short term borrowings | 301,618,520 | — | — | 301,618,520 | 481,354,500 |
| Trade and other payables | — | — | 235,379,262 | 235,379,262 | 287,316,596 |
| Accrued mark-up on finance | — | — | 9,642,605 | 9,642,605 | 35,765,554 |
| | 529,282,438 | 728,822,058 | 306,962,017 | 1,595,066,513 | 1,804,227,456 |

Markup rate risk sensitivity gap (483,304,644) (728,822,058) 6,240,373 (1,235,886,329) (1,670,487,958)

Interest rates have been disclosed in respective notes to the financial statements.

Rate of Interest

| | |
|--------------------------------|-------------------|
| Long term finance | Refer Note No. 8 |
| Obligation under finance lease | Refer Note No. 9 |
| Short term borrowings | Refer Note No. 13 |

41. CREDIT RISK

Credit risk represents the accounting losses that would be recognized at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs.359.181 million (2007: Rs. 133.739 million) the financial assets which are subject to credit risk amounted to Rs. 99.481 million (2007: Rs. 127.514 million). The company foresee that it is not exposed to major concentration of credit risk. To manage exposure to credit risk the Company applies restrictive credit period for its major customers. Deposits with leasing companies are guaranteed by assets acquired against them.



42. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transaction in / based on other than 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.

43. 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.

44. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

As part of its strategic revival plan the Board of Directors in their meeting held on April 09, 2008 approved 11th Right Issue of 121% of issued subscribed and paid up capital of the Company. All relevant formalities have been completed including full and firm underwriting agreements with the underwriters. Last date for Renunciation of Right Allotment Letter was July 11, 2008. As of June 30, 2008 the Company has received Rs. 342 million against Right Shares subscription. Entire subscription amount i.e. Rs. 410 million including amount subscribed by underwriter has been released to the Company by July 24, 2008.

45. RECLASSIFICATION

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

Salaries and wages amounting to Rs. 16,001,879 included in cost of sales have been reclassified as administrative expenses.

46. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 8, 2008 by the Board of Directors of the Company.

47. GENERAL

Figures have been rounded- off to the nearest thousand of rupees

MUHAMMAD ASIF TELI
Chief Executive

MURTAZA A. RAZAK
Director



**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2008**

| No of Shareholders | Shareholding | | | | | Total shares held |
|---------------------------|---------------------|-----------|----|--------------|-------|--------------------------|
| 269 | From | 1 | to | 100 | Share | 8,569 |
| 147 | From | 101 | to | 500 | Share | 36,386 |
| 31 | From | 501 | to | 1,000 | Share | 22,880 |
| 42 | From | 1,001 | to | 5,000 | Share | 94,122 |
| 3 | From | 10,001 | to | 20,000 | Share | 37,038 |
| 4 | From | 20,001 | to | 120,000 | Share | 433,712 |
| 3 | From | 120,001 | to | 500,000 | Share | 537,738 |
| 2 | From | 500,001 | to | 1,500,000 | Share | 1,429,244 |
| 8 | From | 1,500,001 | to | 4,000,000 | Share | 24,711,516 |
| 1 | From | 4,000,001 | to | to and above | Share | 6,578,651 |
| <hr/> | | | | | | |
| 510 | | | | | | 33,889,856 |

| Categories of Shareholders | Number of Share Holders | Share held | Percentage |
|--------------------------------------|--------------------------------|-------------------|-------------------|
| Financial Institutions | 2 | 234,286 | 0.69 |
| Insurance Companies | 2 | 6,324 | 0.02 |
| Investment Companies | 2 | 19 | 0.00 |
| Private Sector Companies | 4 | 11,086,064 | 32.71 |
| Public Sector Companies | 3 | 4,488 | 0.01 |
| Director, CEO, their Spouses & Minor | 9 | 14,009,121 | 41.34 |
| Charitable Institution | 2 | 1,412 | 0.00 |
| Individual | 486 | 8,548,142 | 25.22 |
| | 510 | 33,889,856 | 100.00 |



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

| Categories of Shareholders | No of shareholders | Share held |
|---|--------------------|------------|
| FINANCIAL INSTITUTIONS | | |
| National Bank of Pakistan Trustee Wing | 1 | 115,407 |
| NBP Trustee NI (U)T (LOC) FUND | 1 | 118,879 |
| INSURANCE COMPANIES | | |
| Habib Insurance Co Limited | | 5,861 |
| Pakistan Reinsurance Company Ltd. | | 463 |
| | 2 | 6,324 |
| INVESTMENT COMPANIES | | |
| Investment Corporation of Pakistan | | 6 |
| Shirazi Investment Ltd | | 13 |
| | 2 | 19 |
| PRIVATE SECTOR COMPANIES | | |
| | 4 | 11,086,084 |
| PUBLIC SECTOR COMPANIES | | |
| | 3 | 4,488 |
| DIRECTORS, CEO, THEIR SPOUSES AND MINOR CHILDREN | | |
| A.RAZAK HAJI SATTAR | Chairman | 3,557,054 |
| ABDUL RAHMAN YAQUB | Director | 500 |
| SHABBIR AHMED s/o MUHAMMD YAQOOB | Director | 500 |
| KHALEEQ-UR-RAHMAN s/o ZIKRUR RAHMAN | Director | 500 |
| JAWED YUNUS TABBA | Director | 500 |
| MURTAZA A.RAZAK | Director | 381,689 |
| MUHAMMAD ASIF TELI | Chief Executive | 3,626,268 |
| JAMILA A.RAZAK | | 3,265,194 |
| MRS. MAHJABEEN w/o MUHAMMAD ASIF TELI | | 3,176,916 |
| | 9 | 14,009,121 |
| SPONSOR | 9 | 8,275,444 |
| CHARITABLE INSTITUTION | 2 | 1,412 |
| INDIVIDUAL | 477 | 272,678 |
| | 510 | 33,889,856 |

DETAILS OF SALE OF SHARES

| | | | |
|---------------------------|------|-----------|--------|
| DIRECTOR | | | |
| MR. MURATAZA A. RAZAK | Sale | 1,773,444 | shares |
| EX-DIRECTOR | | | |
| MR. MUSTAFA A. RAZAK | Sale | 1,507,577 | shares |
| MR. HAMID HAJI LATIF | Sale | 39,535 | shares |
| MR. JUNAID HAJI LATIF | Sale | 39,535 | shares |
| MRS. HANIYA SAMIULLAH | Sale | 539,788 | shares |
| SPONSOR | | | |
| MST. JAMILA A. GHAFAR | Sale | 2,613,241 | shares |
| MISS. AMBREEN A. RAZAK | Sale | 1,321,878 | shares |
| MR. MUHAMMAD ALI A. RAZAK | Sale | 1,662,399 | shares |
| MR. MANSOOR A. RAZAK | Sale | 1,591,687 | shares |



PROXY FORM

I/We, _____
of _____
being a member of **NAKSHBANDI INDUSTRIES LIMITED** holding _____
ordinary shares hereby appoint _____
as per Share Register Folio No. _____ and /or CDC Participant I.D. No. _____
and Sub Account No. _____ hereby appoint _____
of _____
another member of the Company, as my/our proxy to vote for me/us and on my behalf at the
36th Annual General Meeting of the Company to be held on Thursday, October 30, 2008 at 2:00 p.m.
and at any adjournment thereof.

Signed this _____ day of _____ 2008.

| |
|--|
| Please affix Rs. 5/- Revenue Stamp |
|--|

Signed _____

WITNESSES :

| | |
|--------------------|--------------------|
| 1. Signature _____ | 2. Signature _____ |
| Name _____ | Name _____ |
| Address _____ | Address _____ |
| _____ | _____ |
| NIC or _____ | NIC or _____ |
| Passport No. _____ | Passport No. _____ |

Note :

1. The proxy order to be valid must be signed across a Five Rupees Revenue Stamp and should be deposited in the Registered Office of the Company not later than 48 hours before the time of holding the Meeting.
2. No person shall act as proxy unless he is a member of the Company.
3. Signature should agree with the specimen signature registered with the Company.
4. If the member is a corporation its common seal should be affixed to the proxy.
5. CDC Shareholders and their Proxies must attach either an attested photocopy of their National Identity Card or Passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.