

FEROZE1888 MILLS LIMITED

(Formerly Nakshbandi Industries Limited)

ANNUAL REPORT 2011



*Weaving a Better World
A Better Pakistan*



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

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Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

COMPANY INFORMATION

Board Of Directors	:	Abdul Rahman Yaqub Jawed Yunus Tabba Jonathan R. Simon Khaleequr Rahman - Chairman Perwez Ahmed Rehan Rahman - Chief Executive Shabbir Ahmed Sheikh Zafar Ahmed
Audit Committee	:	Jawed Yunus Tabba - Chairman Perwez Ahmed - Member Shabbir Ahmed - Member
Company Secretary	:	Abdul Aleem, <i>FCA</i>
Bankers	:	Askari Bank Limited Bank Al Habib Limited Bank Alfalah Limited Habib Bank Limited Habib Metropolitan Bank Limited Standard Chartered Bank (Pakistan) Limited
Auditors	:	Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants 180-A, S.M.C.H.S., Karachi
Legal Advisor	:	M. Adam Patel & Co.
Share Registrar	:	FAMCO Associates (Pvt) Ltd. First Floor, State Life Building No. 1-A Off I.I. Chundrigar Road, Karachi.
Registered Office	:	H-23/4 A Landhi, Karachi.
Website	:	http://www.feroze1888.com



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 stakeholders, the owners of our business.

VISION STATEMENT

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



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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 39th Annual General Meeting of the Members of the Company will be held at the Registered Office at H-23/4 A, Scheme # 3, Landhi Industrial Area, Karachi on Saturday, October 29, 2011 at 03.00 p.m. to transact the following businesses:

1. To receive, consider and adopt the Annual Audited Accounts for the year ended June 30, 2011 together with the Directors' and Auditors' Reports thereon.
2. To consider and approve the final cash dividend of Rs. 2.0 per share recommended by the Board of Directors for payment to all shareholders except directors, their relatives and associates.
3. To appoint Messrs. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, as auditors for the year ending June 30, 2012 and to fix their remuneration.
4. To transact any other business with the permission of the Chair.

By Order of the Board
(Abdul Aleem)
Company Secretary

Karachi: October 03, 2011

Notes:

1. The Share Transfer Books of the Company will remain closed from Saturday, October 22, 2011 to Saturday, October 29, 2011 (both days inclusive). Transfers received at the office of Share Registrar at the close of business on Friday, October 21, 2011 will be considered in time to attend and vote at the meeting and for the purpose of above entitlement to the transferees.
2. A member of the Company entitled to attend and vote at this meeting may appoint a proxy to attend, speak and vote instead of him/her. A proxy must be a member of the Company. An instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must, to be valid, be received at the Registered Office of the Company or at the Office of the Share Registrar not later than forty eight hours before the time appointed for the Meeting. A member shall not be entitled to appoint more than one proxy. If a Member appoints more than one proxy and more than one instrument of proxy are deposited by a member with the Company, all such instruments shall be rendered invalid. The proxy shall produce his/her original National Identity Card or Passport to prove his/her identity.
3. Members are requested to notify any change in their address immediately.
4. Members should quote their Folio Number in all correspondence and at the time of attending the Meeting.
5. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest to enable the Company to comply with relevant laws.
6. **GUIDELINES FOR CDC ACCOUNT HOLDERS ISSUED BY SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**

For personal attendance:

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original National Identity Card at the time of attending the meeting.



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- (ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For appointing proxy

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
- (ii) The proxy must be witnessed by two persons whose names, addresses and Computerised National Identify Card (CNIC) numbers shall be mentioned on the form.
- (iii) Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.
- (iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
- (v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Registered Office:

Nakshbandi Industries Limited
H-23/4A, Scheme 3
Landhi Industrial Area
Landhi
Karachi

Share Registrar:

FAMCO Associates (Pvt.) Ltd
First Floor
State Life Building No. 1-A
Off I. I, Chundrigar Road
Karachi 74000



DIRECTORS' REPORT

Your directors are pleased to present the 39th Annual Report together with the audited financial statements for the year ended June 30, 2011.

OPERATING AND FINANCIAL PERFORMANCE

The year under review was full of stress especially for textile value added sector. Unprecedented increase in the cost of raw material, enhanced requirements for funds, increase in the cost of borrowings, upward revision of gas prices, imposition of flood surcharge, imposition of sales tax on sales to unregulated sector as well as on retail sales, continued double digit inflationary pressure and refusal or delayed increase by the customers to compensate the increase in raw material and other costs were the major challenges for the sector to cope with. The law and order situation and fuel rationing causing production losses had further added miseries to the stressful situation. Nevertheless, the management with the Grace of Almighty Allah has been able to achieve even better results both operational as well as financial. The weaving production during the year is 7.701 million kg as compared to 4.857 million kg during last year. The same is including 2.660 million kg during the year produced for third party as compared to 0.996 million kg produced during the preceding year. The total sale during the year is 5.585 million kg as compared to 4.271 million kg during last year. The higher production has contributed significantly in improving the sale volume as well as the financial results. The sale volume during the last quarter of the year was higher by approximately 25% compared with third quarter and in order to meet the enhanced requirement Company had to rely on outside resources.

The higher production and sales volume, higher level of commercial weaving and processing activities and continued efforts to control costs could not help the management to maintain the gross profit ratio to sales for the reasons mentioned in above paragraph, though the amount of gross profit is higher by Rs. 742.29 million. The increase in the cost of raw material alone has substantially dented the same and the gross profit percentage to sales during the year is 13.66 as compared to 18.26 achieved during last year though the gross profit volume is higher by Rs. 74.229 million when compared with last year. In spite of double digit inflationary pressure and higher volume of sales the administrative and selling cost was higher by Rs. 18.248 million only compared with last year. The financial cost has gone up due to end of moratorium period, much higher utilization of borrowing limits and increase in the cost of borrowings. The pre tax net profit percentage to sales is 5.49% against 7.75% of last year whereas the ratio of profit after tax to sales from continued operations is 4.69% as compared to 7.02% during preceding year. In spite of reduction in earnings percentage the profit before tax earned during the year is higher by Rs. 22.755 million. Similarly the profit after tax is also higher in rupee term when compared with last year, however, the amount of after tax profit earned after considering gain from discontinued operations, is Rs. 151.454 as compared to Rs. 168.806 million earned during the preceding year. The earnings per share during the year under review, including earnings from discontinued operation is Rs. 1.29 whereas the same was Rs. 1.38 during the corresponding last year.

FUTURE OUTLOOK

The already much stressed Textile Sector has been further stressed by the natural disaster affecting cotton crop, end of duty draw back facility and almost 20% increase in the gas prices. The increase in inflationary pressure and imposition by government of some sort of tax or surcharge, as imposed last year, are the most expected affect of the recent rains and floods, which will further enhance the cost of doing business. Our customers who did considered the increase in the prices last year, only in view of global increase in prices of cotton, are now reducing the prices due to global reduction and any increase in the cost of either raw material or other inputs at national level would not be considered by them and this may affect our margin further.

However, your management with faith in the Almighty Allah, confidence in the strategy so far successfully adopted and commitment to further improve man and machine efficiency, reduce inefficiencies in processes, reduce cost by reliance on better technologies and adopting best practices would try its best be competitive for its customer and to achieve higher level of operational and financial results.



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DIVIDEND & SUBSEQUENT APPROPRIATION

The Board has recommended cash dividend @ 20 % i.e., Rs. 2.00 per share and accordingly the following appropriation has been made. However, directors, their relatives and associates have voluntarily waived their right to receive this dividend, thus same will be paid only to the minority shareholders.

	2011	2010
	(Rupees '000)	
Accumulated loss brought forward	(491,520)	(659,802)
Profit after taxation for the year	<u>151,454</u>	<u>168,806</u>
Accumulated loss	(340,066)	(490,996)
Cash dividend	<u>(524)</u>	<u>(524)</u>
Accumulated loss carried forward	<u>(340,590)</u>	<u>(491,520)</u>

CORPORATE SOCIAL RESPONSIBILITY

The Board of Directors of the Company being aware of its role and responsibility, which is now a global business imperative, is giving due emphasis on "Corporate Social Responsibility". The yearly objectives of the company as well as of departments and budgets have continued provisions for activities like conserving natural resources, waste reduction and recycling, improving energy efficiency and enhancing environmental performance by reducing spills and releases. The 'Waste Heat Recovery Plant' completed last year is enabling the availability of 1,400 kg of steam per hour and 70 gallon of hot water per minute and thus usage of gas for the purpose has been reduced rateably. The Waste Water Treatment which is expected to complete in year 2011-2012 requiring a total investment of Rs 50. Million will enable the company to first treat the water before draining the same and thus would ensure compliance with the applicable environmental laws and reducing pollution. Similarly new targets have been set for reduction in the natural gas consumption and use of water after substantially achieving those set last year.

Health and safety of staff and workers
Improved working conditions
Contributing for cause of humanity

The "Social Responsibility Squad" established and managed jointly by management and staff since last year with emphasis on areas like, health, safety, environment and education has again contributed significantly during the year. For the awareness of employees the squad organized and celebrated the following events with the help of in house experts, display and distribution of literature and inviting outside faculty and consultants for lectures: World Heart day

World Water day
World Health Day
Earth day
World Environment Day
World blood Donor Day

The "Medical Assistance Clinic" has provided consultancy to hundreds of patients a month with free treatments to employees in non management cadre and with reduced fee for those working in management cadre.



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CORPORATE GOVERNANCE

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:

1. The financial statements for the year ended June 30, 2011, 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.
2. The Company has maintained the proper books of accounts.
3. In preparation of the financial statements, appropriate accounting policies have been consistently applied and the accounting estimates are based on prudent judgment.
4. International Accounting Standards, as applicable to Pakistan, have been followed in preparation of the financial statements, and the non-applicability, if any, has been adequately disclosed.
5. 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.
6. There are no significant doubts about the Company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance as defined in the listing regulations of the stock exchange.
8. The value of Provident Fund Investments as per audited accounts of Provident Fund Trust for the year ended June 30, 2010 was Rs. 16.555 million.
9. There are no outstanding dues on account of taxes, levies and charges except of a normal and routine nature.
10. During the year none of the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses and minor children has traded in the shares of the company with the exception of the following :

Name of Director/Ex-Director	Shares Purchased	Shares Sold
Mr. Shabbir Ahmed	26,156,907	7,874,000
Mr. Khaleequr Rahman	3,825,857	3,457,975
Sheikh Zafar Ahmed	26,553	
Mr. Perwez Ahmed	26,552	
Mr. Rehan Rahman	3,458,045	1,488,275
Mr. Abdul Razak Teli		10,179,688
Mr. Muhammad Asif Teli		4,440,501
Mr. Murtaza Teli		1,000,000
Mrs. Shehnaz Rahman	1,969,770	
Mrs. Sana Rehan	1,723,549	
Mrs. Jamila Razak Teli		3,286,608
Mrs. Mehjabeen Asif		3,176,916



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11. Key operating and financial data for the last six years is annexed.
12. Six meetings of Board of Directors were held during the year. Attendance by the directors is given below

Mr. Khaleequr Rahman (Chairman)	6
Mr. Shabbir Ahmed	4
Mr. Abdul Rahman Yaqub	3
Sheikh Zafar Ahmed	4
Mr. Perwez Ahmed	2
(As alternate Director for Mr. Abdul Rahman Yaqub)	
Mr. Perwez Ahmed	4
(As elected Director)	
Mr. Jonathan R. Simon	4
Mr. Jawed Yunus Tabba	4
Mr. Rehan Rahman	6
Mr. Abdul Razak Teli	—
Mr. Murtaza Teli	—
Mr. Muhammad Asif Teli	—

Directors who could not attend meeting due to illness or some other engagements were granted Leave of absence.

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

CHANGES IN BOARD OF DIRECTORS

Sheikh Zafar Ahmed, Mr. Perwez Ahmed and Mr. Jonathan R. Simon were appointed as directors by the Board to fill the casual vacancy arising due to resignation by Mr. Abdul Razzak Teli, Mr. Muhammad Asif Teli and Mr. Murtaza Teli.

AUDITORS

The auditors M/s Rahman Sarfaraz Rahim Iqbal Raifq, Chartered Accountants, retires and being eligible, has offered themselves for re-appointment.

PATTERN OF SHAREHOLDING

Statements showing the pattern of shareholding as at June 30, 2011 required under the Companies Ordinance, 1984 and the Code of Corporate Governance.

ACKNOWLEDGMENTS

The Directors are pleased to place on record their appreciation for the contributions made by the employees of the Company. In addition, management also acknowledges the role of all the bank, customers, suppliers and other stakeholders for their continued support.

For and on behalf of the Board

Khaleequr Rahman
Chairman

Karachi:
Date: October 03, 2011



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PATTERN OF SHAREHOLDING AS AT JUNE 30, 2011

No. of Shareholders		Shareholding			Total Shares held	
289	From	1	to	100	Share	8,852
124	From	101	to	500	Share	25,755
25	From	501	to	1,000	Share	18,050
28	From	1,001	to	5,000	Share	57,438
4	From	5,001	to	10,000	Share	33,538
1	From	10,001	to	15,000	Share	10,986
1	From	15,001	to	20,000	Share	15,589
1	From	90,001	to	95,000	Share	93,072
3	From	1,720,001	to	1,725,000	Share	5,170,647
6	From	1,965,001	to	1,970,000	Share	11,818,620
1	From	1,995,001	to	2,000,000	Share	1,996,323
1	From	2,635,001	to	2,640,000	Share	2,636,995
1	From	2,935,001	to	2,940,000	Share	2,938,702
1	From	2,965,001	to	2,970,000	Share	2,965,254
1	From	3,470,001	to	3,475,000	Share	3,473,649
1	From	5,170,001	to	5,175,000	Share	5,170,646
1	From	5,270,001	to	5,275,000	Share	5,273,990
1	From	5,530,001	to	5,535,000	Share	5,533,235
1	From	8,720,001	to	8,725,000	Share	8,723,114
1	From	14,805,001	to	14,810,000	Share	14,809,946
1	From	20,175,001	to	20,180,000	Share	20,178,352
1	From	26,630,001	to	26,635,000	Share	26,634,879
494					117,587,632	



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PATTERN OF SHAREHOLDING AS AT JUNE 30, 2011

Categories of shareholders	Number of shareholders	Share held	Percentage
Directors, Chief Executive Officer, their spouse and minor children	12	48,843,647	41.54
NIT and ICP	1	6	0.00
Banks, Development Finance Institutions, Non-Banking Finance Institutions & Others	1	10,986	0.00
Shareholders holding 10% or more	2	34,988,298	29.76
General Public	478	33,744,695	28.70
	494	117,587,632	100.00



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PATTERN OF SHAREHOLDING ADDITIONAL INFORMATION (CODE OF CORPORATE GOVERNANCE) AS AT JUNE 30, 2011

Shareholders' Category	Number of Shareholders	Number of Shares held	
Associated Companies, undertaking and related parties	–	–	
NIT and ICP			
M/s Investment Corporation of Pakistan	1	6	
Directors, CEO, their Spouses and minor children (name wise details):			
Mr.Khaleequr Rahman	Director/Chairman	1	1,996,323
Mr.Rehan Rahman	Director/Chief Executive	1	1,969,770
Mr.Shabbir Ahmed	Director	1	26,634,879
Mr.Abdul Rahman Yaqub	Director	1	–
Sheikh Zafar Ahmed	Director	1	3,437,649
Mr.Perwez Ahmed	Director	1	2,965,254
Mr.Jonathan R. Simon	Director	1	–
Mr.Jawad Yuns Tabba	Director	1	1,105
Mrs.Shahnaz Rahman	Spouse	1	1,969,770
Mrs.Humaira Zafar	Spouse	1	5,170,646
Mrs.Saba Perwez	Spouse	1	2,938,702
Mrs.Sana Rehan	Spouse	1	1,723,549
Executives	–	–	
Public Sector Companies	–	–	
Bank, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, modarabas and mutual funds	1	10,986	
Shareholders holding 10% or more voting interest:			
Mr. Shabbir Ahmed	1	26,634,879	
1888 Mills, LLC (Foreign Company)	1	20,178,352	
Grangeford Ltd. (Foreign Company)	1	14,809,946	



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YEAR WISE STATISTICAL SUMMARY

Year Ended June 30,	2011	2010	2009	2008	2007	2006
Towel Production (Milion Kg)	7,701.00	4,857.00	4,123.00	3,910.00	3,275.00	4,666.00
(Rs. in million)						
ASSETS EMPLOYED						
Fixed Assets	1,421.00	1,484.00	1,544.00	1,365.00	1,649.00	1,680.00
Investments, Long term Advances and Deposits	3.00	3.00	3.00	3.00	5.00	4.00
Current Assets	1,294.00	854.00	843.00	726.00	536.00	1,083.00
Assets classified as held for sale	1.00	5.00	71.00	95.00	-	-
Total Assets Employed	2,719.00	2,346.00	2,461.00	2,189.00	2,190.00	2,767.00
FINANCED BY						
Shareholders' Equity	1,051.00	900.00	304.00	(100.00)	19.00	517.00
Right shares subscription account	-	-	424.00	342.00	-	-
Long Term Liabilities	177.00	336.00	486.00	791.00	785.00	329.00
Obligation under Finance Lease	-	-	-	-	11.00	20.00
Deferred Liabilities	-	-	-	-	12.00	22.00
Current Liabilities	923.00	588.00	641.00	684.00	1,025.00	1,542.00
Liabilities classified as held for sale	-	-	-	134.00	-	-
	2,151.00	1,824.00	1,855.00	1,851.00	1,852.00	2,430.00
Debt Equity Ratio	17:83	25:75	32:68	61:39	74:26	45:55
Current Ratio	1.4:1	1.58:1	1.30:1	0.99:1	0.52:1	0.70:1
Quick Ratio	0.82:1	0.74:1	0.80:1	0.47:1	0.14:1	0.13:1
TURNOVER & PROFIT						
Turnover (Net)	2,913.00	1,772.00	1,749.00	1,277.00	1,617.00	1,938.00
Gross Profit / (Loss)	398.00	324.00	249.00	113.00	(202.00)	216.00
Operating Profit / (Loss)	216.00	187.00	64.00	(36.00)	(336.00)	70.00
Profit / (Loss) Before Taxation	160.00	137.00	(11.00)	(93.00)	(482.00)	(75.00)
Profit / (Loss) After Taxation	137.00	124.00	(6.00)	(105.00)	(50.00)	(96.00)
Gross Profit Ratio	13.06%	18.28%	14.24%	8.85%	(12.49%)	11.15%
Net Profit (after tax to sales) Ratio	4.70%	7.00%	(0.34%)	(8.22%)	(3.09%)	(4.95%)
Loss per share - Basic & Diluted						
- from continuing operations	1.16	1.20	(0.09)	(3.12)	(14.69)	(3.47)
- from discontinued operations	0.13	0.18	0.01	(0.04)	-	-
Breakup value of shares						
(Rupees '000)						
Number of Shares at year end	117,582	117,582	74,987	33,890	33,890	33,890
Share Capital, Revenue Reserves & Accumulated loss	1,051,060	900,130	304,414	(100,266)	18,811	516,629
Surplus on revaluation of property	568,060	568,060	593,560	338,442	338,442	338,442
Breakup Value per share without revaluation	8.94	7.66	4.06	(2.96)	0.56	15.24
Breakup Value per share with revaluation	13.77	12.49	11.98	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. 35 of Listing Regulation of Karachi Stock Exchange 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.

1. The company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present Board includes six nonexecutive directors.
2. The Directors have voluntarily confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. Directors, Chief Executive, CFO, Company Secretary and their spouse and minor children have not made transactions in the Company's shares during the year other than that disclosed in the Directors Report.
4. The Directors have voluntarily declared that 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.
5. No casual vacancy occurred in the Board during the year under review.
6. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
7. 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.
8. All powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The Board of directors and members has approved appointment and determination of remuneration and terms and conditions of employment of the present CEO and other executive director.
9. 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.
10. The Board arranged in house orientation during the year for its directors to apprise them of their duties and responsibilities.
11. The Board has approved the appointment and terms and conditions of employment of CFO and Company Secretary during the year. No appointment of Head of Internal Audit has been made during the year.



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12. 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.
13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
14. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises 3 members, all of them are nonexecutive directors.
17. 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.
18. The Board has set-up an effective internal audit function and has outsourced the internal audit function to a Chartered Accountants firm.
19. The related party transactions have been reviewed and approved by the Board of Directors and placed before the Audit Committee in accordance with the listing regulations of the stock exchange.
20. 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.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Rehan Rahman
Chief Executive

Karachi:

Dated : October 03, 2011



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REVIEW REPORT TO THE MEMBERS ON STATEMENTS 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 **Feroze1888 Mills Limited (formerly Nakshbandi Industries Limited)** ("the Company") to comply with the Listing Regulation No.35 (previously Regulation No. 37) of the Karachi Stock Exchange (Guarantee) Limited, 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 our 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub- Regulation (xiii) of Listing Regulation No. 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2011.

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants
Muhammad Waseem

Karachi:

Dated : October 03, 2011



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Feroze1888 Mills Limited (formerly Nakshbandi Industries Limited)** ("the Company") as at 30 June 2011, and the related profit & loss account, statement of comprehensive income, cash flows 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 purpose 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, statement of comprehensive income, cash flows 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 30 June 2011, and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants
Engagement partner: Muhammad Waseem

Karachi:

Dated : October 03, 2011



Feroze 1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

BALANCE SHEET AS AT JUNE 30, 2011

SHARE CAPITAL & RESERVES	Note	2011	2010
		(Rupees in '000)	
Authorised share capital 125,000,000 (2010: 125,000,000) ordinary shares of Rs. 10 each		<u>1,250,000</u>	<u>1,250,000</u>
Issued, subscribed and paid-up capital	4	1,175,876	1,175,876
Capital reserve - share premium		215,250	215,250
Accumulated losses		(340,066)	(490,996)
		<u>1,051,060</u>	<u>900,130</u>
Surplus on revaluation of property, plant and equipment	5	568,060	568,060
LIABILITIES			
Non-current liabilities			
Long term finance - secured	6	176,960	335,895
Current liabilities			
Trade and other payables	7	424,597	168,723
Accrued mark-up	8	11,793	13,709
Short term borrowings - secured	9	327,972	194,110
Current portion of long term finance	6	158,935	165,013
Taxation - net		—	628
		<u>923,297</u>	<u>542,183</u>
Contingencies and commitments	10	—	—
		<u>2,719,377</u>	<u>2,346,268</u>
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,421,256	1,483,840
Long term investment		10	10
Long term deposits		2,971	2,971
Current assets			
Stores and spares	12	98,807	72,756
Stock-in-trade	13	439,230	379,521
Trade debts - considered good	14	628,265	345,442
Advances, prepayments and other receivables	15	92,090	45,612
Taxation - net		4,217	—
Cash and bank balances	16	31,743	11,020
		<u>1,294,352</u>	<u>854,351</u>
Assets classified as held for sale	17	788	5,096
		<u>2,719,377</u>	<u>2,346,268</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Sales - net	18	2,912,929	1,771,988
Cost of sales	19	(2,515,153)	(1,448,441)
Gross profit		<u>397,776</u>	<u>323,547</u>
Administrative expenses	20	(57,406)	(51,626)
Distribution cost	21	(97,016)	(84,548)
Other operating expenses	22	(27,373)	(19,366)
		<u>(181,795)</u>	<u>(155,540)</u>
Operating profit		215,981	168,007
Finance cost	23	(55,977)	(30,758)
Profit before taxation from continuing operations		160,004	137,249
Taxation	24	(23,347)	(12,799)
Profit after taxation from continuing operations		136,657	124,450
Profit after taxation from discontinued operation	29	14,797	18,856
Profit after taxation		<u>151,454</u>	<u>143,306</u>
(Rupees)			
Earnings per share			
- from continuing operations			
- Basic and diluted	25	<u>1.16</u>	<u>1.20</u>
- from discontinued operation			
- Basic and diluted	29.1	<u>0.126</u>	<u>0.182</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in '000)	
Profit for the year		
- from continuing operations	136,657	124,450
- from discontinued operation	14,797	118,856
	151,454	143,306
Other comprehensive income for the year		
Surplus on revaluation of property, plant and equipment realised during the year	—	25,500
Total comprehensive income for the year	<u>151,454</u>	<u>168,806</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

NAKSHBANDI INDUSTRIES LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
CONTINUING OPERATIONS			
Cash generated from operations	27	165,774	5,761
Finance costs paid		(66,374)	(34,904)
Income tax deducted at source		<u>(28,192)</u>	<u>(17,003)</u>
Net cash used in operating activities		71,208	(46,146)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(43,069)	(48,332)
Sales proceeds on disposal of property, plant and equipment		4,630	8,826
Long term deposits		—	57
Net cash used in investing activities		(38,439)	(39,449)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		—	3,406
Repayment of long term finance		(165,013)	(120,020)
Net cash used in financing activities		(165,013)	(116,614)
Net increase in cash & cash equivalents during the year		(132,244)	(202,209)
DISCONTINUED OPERATION			
Net cash generated from discontinued operation	29.2	19,105	84,642
Cash and cash equivalents at the beginning of the year		<u>(183,090)</u>	<u>(65,523)</u>
Cash and cash equivalents at the end of the year	28	<u><u>(296,229)</u></u>	<u><u>(183,090)</u></u>

The annexed notes 1 to 37 form an integral part of these financial statements.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



Feroze 1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2011

	Share capital	Capital reserve	Accumulated losses	Total
	----- (Rupees in '000) -----			
Balance as at 30 June 2009	748,966	215,250	(659,802)	304,414
Issuance of shares	426,910	—	—	426,910
Total comprehensive income for the year ended 30 June 2010				
Profit for the year				
-from continuing operations	—	—	124,450	124,450
-from discontinued operation	—	—	18,856	18,856
Other comprehensive income - Surplus on revaluation realised during the year	—	—	25,500	25,500
	—	—	168,806	168,806
Balance as at 30 June 2010	1,175,876	215,250	(490,996)	900,130
Total comprehensive income for the year ended 30 June 2011				
Profit for the year				
-from continuing operations	—	—	136,657	136,657
-from discontinued operation	—	—	14,797	14,797
	—	—	151,454	151,454
Transactions with owners - Final cash				
dividend @ Rs. 2.00 per share for the year ended 30 June 2010	—	—	(524)	(524)
Balance as at 30 June 2011	1,175,876	215,250	(340,066)	1,051,060

The annexed notes 1 to 37 form an integral part of these financial statements.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. THE COMPANY AND ITS OPERATIONS

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, Scheme # 3, Landhi Industrial Area, Karachi.

The Company changed its name during the year from "Nakashbandi Industries Limited" to "Feroze1888 Mills Limited" with effect from 08 October 2010 (being the date of approval of SECP) through special resolution passed by the shareholders in EOGM dated 30 September 2010.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984 and the provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 have been followed.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that the land which is carried at revalued amount and certain exchange elements have been incorporated in the cost of the relevant assets.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency and rounded to the nearest thousand rupees.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make the judgment, estimates, assumptions and use judgments 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.

Estimates, assumptions and judgments 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.

Judgments and estimates made by management that may have a significant risk of material adjustments to the financial statements in subsequent years are as follows:

- a) Useful lives and residual values of property, plant and equipment (Note 3.7 and 3.17)
- b) Taxation (Note 3.3)
- c) Staff retirement benefits (Note 3.1)
- d) Estimation for impairment in respect of trade debts (Note 3.10)
- e) Provision for obsolete / slow moving stores and spares and stock-in-trade (Note 3.8 and 3.9)



2.5 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective during the year. However, the amendments or interpretation did not have any material effect on the financial statements of the Company.

2.6 New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards 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 increased disclosures in certain cases:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Staff retirement benefits

3.1.1 Defined contribution plans

The Company operates an approved defined contribution provident fund for its eligible employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

3.1.2 Employees' compensation absences

The Company accounts for the liability in respect of employees' compensation absences in the year in which these are earned.

3.2 Provisions

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

3.3 Taxation

Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalized during the year.



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The Company's income is chargeable to tax under final tax regime prescribed under the Income Tax Ordinance, 2001.

Deferred

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, no deferred tax is recognised since Company's income is wholly chargeable to tax under the final tax regime of the Income Tax Ordinance, 2001.

3.4 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

3.5 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.6 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.7 Property, plant and equipment

3.7.1 Owned

These are stated at historical cost less accumulated depreciation and impairment loss, if any, except for leasehold land that are shown at revalued amounts. Depreciation is charged to profit and loss account applying the reducing balance method whereby the cost of an asset is written off over its useful life at the rates specified in note 11 to the financial statements. Depreciation on additions is charged from the month the asset is available for use upto the month preceding the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the recoverable amount.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

Disposal of asset is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are taken to the profit and loss account.

Depreciation method, useful lives and residual values are reviewed annually and adjusted, if appropriate, at each balance sheet date.

Repairs and maintenance are charged to income as and when incurred.

3.7.2 Capital work in progress

Capital work-in-progress is stated at cost less impairment, if any. 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 operating fixed assets category as and when assets are available for use.

3.8 Stores and spares

Stores and spares, excluding items in transit, are valued at lower of moving average cost and net realisable value. Provision is made for slow moving and obsolete items, based on management's best estimate regarding their future usability.

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

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

3.9 Stock-in-trade

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

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

By products [Waste products] are valued at net realisable value.

Net realisable value signifies the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to be incurred to make the sale.

Provisions are made in the financial statements for obsolete and slow moving stock-in-trade based on management's best estimate regarding their future usability.

3.10 Trade and other receivables

Trade and other receivables are carried at original invoice amount / cost, which is the fair value of the consideration to be received, less an estimate made for doubtful debts which is determined based on management review of outstanding amounts and previous repayment pattern. Balances considered bad and irrevocable are written off.

3.11 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement includes cash in hand, balance with banks, and bank overdrafts / short term borrowings. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.



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3.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria has been met for each of the Company's activities as described below:

- Sale of goods & services

Sales are recorded on dispatch of goods to the customer or on performance of services.

- Interest / mark up income

Income on deposits and other operating income are recorded on accrual basis.

3.13 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.

3.14 Non current assets held for sale

Non-current assets held (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sales rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, assets (or components of the disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.15 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset. Borrowing costs includes exchange differences arising on foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

3.16 Foreign currency transactions and translation

These financial statements are presented in Pak Rupees, which is Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.



3.17 Impairment of non-financial assets

Assets that are subject to depreciation / amortisation are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sale and value in use. Reversal of impairment loss is restricted to the original cost of the asset.

3.18 Financial assets

3.18.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. There were no financial assets at fair value through profit or loss on the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise deposits, trade debts, other receivables and cash and cash equivalents in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose off it within 12 months of the end of the reporting date.

3.18.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed out in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.



Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in note 3.10.

3.19 Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to the cash flow from the financial assets expire or is transferred. Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expired. Financial instruments carried on the balance sheet include investment, trade and other receivables, advances, cash and bank balances, deposits, borrowings and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

3.20 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are off set and the net amount is reported in the balance sheet only when the Company has a legally enforceable right to offset the recognised amount and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.21 Transactions with related parties

Transactions with related parties are carried out on commercial terms and conditions.

3.22 Earnings per share

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.23 Dividend and appropriation to reserves

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



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

4 ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL

2011 (Number of shares)	2010 (Number of shares)		2011 (Rupees in '000)	2010 (Rupees in '000)
116,728,612	116,728,612	Ordinary shares fully paid in cash	1,167,286	1,167,286
859,020	859,020	Ordinary shares Issued as fully paid bonus shares	8,590	8,590
<u>117,587,632</u>	<u>117,587,632</u>		<u>1,175,876</u>	<u>1,175,876</u>

5 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

The revaluation was done by an independent valuer M/s Iqbal A. Nanji & Company (an approved valuer from Pakistan Bank's Association) on the basis of present market value. Last revaluation was done on October 29, 2008.

6 LONG TERM FINANCE - Secured

	Type of loan	Mark - up rate p.a.	Installments		Unavailed credit as at June 30, 2010	2010	2009
			Number	Commencing from			
Long term finance utilised under mark-up arrangements:						(Rupees in '000)	
Habib Bank Limited	Term Loan	7%	9 half yearly	30 September 2010	—	82,847	106,518
Bank Al habib Limited	Term Loan	7%	16 quarterly	14 September 2010	—	50,109	83,516
"	Term Loan	7%	11 quarterly	14 June 2010	—	74,385	123,974
"	SBP SWAP EOP	SBP rate i.e 5%	8 half yearly	14 March 2010	—	3,125	9,375
Askari Bank Limited	Term Loan	Nil	Monthly 36	01 September 2009	—	14,000	26,000
Standard Chartered Bank (Pakistan) Limited	Term Loan	Interest free	14 quarterly	10 February 2011	—	111,429	130,000
Bank Alfalah Limited	Term Loan	7%	Monthly 12	31 January 2010	—	—	15,000
"	SBP SWAP EOP	SBP rate + 2%	8 half yearly	27 June 2007	—	—	6,525
						335,895	500,908
Less: Current portion shown under current liabilities						(158,935)	(165,013)
						<u>176,960</u>	<u>335,895</u>

6.1 These represents loans restructured in the previous years. The mark-up rates and repayment dates mentioned represents revised rates and dated agreed with the banks on restructuring. These loans are secured by first charge over operating fixed assets and hypothecation of stock-in-trade and stores and spares.



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7 TRADE AND OTHER PAYABLES

	Note	2011	2010
		(Rupees in '000)	
Creditors	7.1	388,751	131,407
Accrued expenses		11,286	12,946
Unclaimed dividend		273	212
Workers' profits participation fund	7.2	9,349	8,216
Workers' welfare fund		4,327	3,373
Right shares subscription	7.3	105	105
Security deposits		4,038	840
Advance from customers		3,046	9,426
Payable to provident fund		1,096	827
Others		2,326	1,371
		<u>424,597</u>	<u>168,723</u>

7.1 This include an amount of Rs. 284.399 million (2010: 60.176 million) payable to related parties.

7.2 Workers' profits participation fund

	2011	2010	
		(Rupees in '000)	
Opening balance	8,216	633	
Interest on WPPF	489	—	
Contribution for the year	9,349	8,216	
	<u>18,054</u>	<u>8,849</u>	
Less: Payment during the year	(8,705)	(633)	
Closing balance	<u>9,349</u>	<u>8,216</u>	

7.3 This represent the unclaimed balance refundable to applicants for right shares called but were subsequently cancelled. The Security and Exchange Commission of Pakistan granted permission in 1995 for cancellation.

8 ACCRUED / MARK-UP

Long term finance	4,664	10,914
Short term borrowings	7,129	2,795
	<u>11,793</u>	<u>13,709</u>



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9 SHORT TERM BORROWINGS - secured

	2011	2010
	(Rupees in '000)	
Export re-finance		
- Habib Metropolitan Bank Limited	300,000	150,000
Running / short term finances		
- Habib Metropolitan Bank Limited	27,972	44,110
	<u>327,972</u>	<u>194,110</u>

9.1 These balances represent short term working capital finance facilities and export re-finance facility of Rs. 328 million (2010: Rs. 194 million) which is secured by pari passu equitable mortgage on land, building, plant and machinery of Rs. 90 million, hypothecation charge over stores and spares, cotton yarn, finished goods and export bills under collection and trade debts amounting to Rs. 772.5 million (2010: Rs. 267.5 million) of the Company. The rate of mark-up for running / short term finance is 3 months KIBOR + 2.5 % per annum (2010: 3 months KIBOR + 2.5 % per annum). The rate of mark-up for export re-finance is SBP rate + full spread per annum (2010: SBP rate + 1% per annum).

10 CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

- Guarantees issued by commercial banks to Sui Southern Gas Company Limited on behalf of the Company amounting to Rs. 36.083 million (2010: Rs. 36.083 million).
- Guarantees issued by commercial bank to supplier and Central Excise Department on behalf of the Company amounting to Rs. 1.33 million (2010: Rs. 1.33 million) and Rs. 0.2 million (2010: Rs. 0.2 million) respectively.
- In terms of renegotiated restructuring package approved by banks (refer note 6) the markup amounting to Rs. 130.717 million for the period of 18 months from December 2007 to June 2009 was not charged by the banks on long term finance and to be waived if the Company fulfills its obligation as per agreed repayment schedule. The Company has not made any provision in this respect as it continues to fulfill its obligations under the aforesaid renegotiated restructuring package and in anticipation that it shall settle the same as per the revised repayment schedules.

10.2 Commitments

Commitments against import letters of credit	<u>11,663</u>	<u>36,416</u>
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The Company has received orders to be shipped subsequent to the year end. Due to this, the Company ordered spare parts and chemicals in order to complete its manufacturing process.

11 PROPERTY PLANT AND EQUIPMENT

Operating fixed assets	11.1	1,391,792	1,426,305
capital work-in-progress	11.2	29,598	61,977
Less: Assets classified as held for sale		(134)	(4,442)
		<u>1,421,256</u>	<u>1,483,840</u>



11.1 Operating fixed assets

For the year ended 30 June 2011

Rupees in '000

Particulars	Cost / revalued amount						Rate % p.a.	Depreciation				Written down value as at 30 June 2011
	As on 1 July 2010	Additions during the year	Transfers during the year	Surplus on revaluation	Disposals	As on 30 June 2011		As on 1 July 2010	Disposals	For the year	As on 30 June 2011	
Leasehold land	603,510	—	—	—	—	603,510	—	—	—	—	603,510	
Building on leasehold land	428,293	—	11,830	—	—	440,123	10%	—	19,337	258,664	181,459	
Plant and machinery	1,268,675	12,276	25,904	—	(1,973)	1,304,882	10%	688,212	59,393	746,505	558,377	
Electric fittings	45,426	162	2,423	—	—	48,011	10%	22,108	2,373	24,481	23,530	
Office equipments	6,167	212	—	—	—	6,379	15%	1,917	656	2,573	3,806	
Computers	10,035	4,236	—	—	—	14,271	30%	7,727	1,418	9,145	5,126	
Furniture and fixtures	10,493	—	—	—	—	10,493	10%	4,638	565	5,223	5,270	
Vehicles	25,479	1,165	—	—	(4,682)	21,962	20%	12,305	(3,681)	11,398	10,564	
Arms and ammunitions	42	—	—	—	—	42	15%	23	3	26	16	
	2,398,120	18,051	40,157	—	(6,655)	2,449,673		976,257	(4,681)	86,439	1,058,015	1,391,658
Discontinued operation												
Leasehold land	4,308	—	—	—	(4,308)	—		—	—	—	—	—
Plant and machinery	5,292	—	—	—	—	5,292		5,158	—	5,158	134	134
	9,600	—	—	—	(4,308)	5,292		5,158	—	5,158	134	134
Total rupees in '000: June 2011	2,407,720	18,051	40,157	—	(10,963)	2,454,965		981,415	(4,681)	86,439	1,063,173	1,391,792



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Rupees in '000

For the year ended 30 June 2010

Particulars	Cost / revalued Amount						Depreciation				Written down value as at 30 June 2010	
	As on 1 July 2009	Additions during the year	Transfers during the year	Surplus on revaluation	Disposals / write-offs	As on 30 June 2010	Rate % p.a	As on 1 July 2009	Disposals / write-offs	For the year		As on 30 June 2010
Continuing operations												
Leasehold land	603,510	—	—	—	—	603,510	—	—	—	—	—	603,510
Building on leasehold land	428,293	—	—	—	—	428,293	10%	218,331	—	20,996	239,327	188,966
Plant and machinery	1,272,831	—	20,281	—	(24,276)	1,268,676	10%	642,859	(17,938)	63,408	688,212	580,464
Electric fittings	45,445	—	—	—	(19)	45,426	10%	19,528	(11)	2,591	22,108	23,318
Office equipments	11,462	294	1,363	—	(639)	6,168	15%	7,123	(477)	732	1,917	4,251
Computers	20,910	515	—	—	(18)	10,035	30%	16,697	(13)	1,112	7,727	2,308
Furniture and fixtures	18,415	285	—	—	(1,375)	10,493	10%	9,821	(1,060)	730	4,639	5,854
Vehicles	38,900	5,108	—	—	(6,832)	25,479	20%	22,823	(13,716)	3,198	12,305	13,174
Arms and ammunitions	42	—	—	—	(18,529)	42	15%	20	—	3	23	19
	2,439,808	6,202	21,644	—	(69,532)	2,398,122		937,202	(53,714)	92,770	976,258	1,421,864
Discontinued operation												
Leasehold land	4,308	—	—	—	—	4,308	—	—	—	—	—	4,308
Office on leasehold land	27,000	—	—	(25,500)	(1,500)	—	—	—	—	—	—	—
Office building on leasehold land	5,782	—	—	—	(5,782)	—	—	4,357	(4,357)	—	—	—
Plant and machinery	69,359	—	—	(5,216)	(58,851)	5,292	—	31,865	(26,706)	—	5,159	133
	106,449	—	—	(30,716)	(71,349)	9,600		36,222	(31,063)	—	5,159	4,441
Total rupees in '000: June 2010	2,546,257	6,202	21,644	(30,716)	(140,881)	2,407,722		973,424	(84,777)	92,770	981,417	1,426,305

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

	2011	2010
	(Rupees in '000)	
Cost of sales	83,751	90,193
Administrative expenses	2,688	2,577
	<u>86,439</u>	<u>92,770</u>

11.1.2 As at the balance sheet date, all the assets of the Company are subject to a registered charge to secure bank loans.



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11.1.3 Details of disposal of property, plant and equipment having book value of more than Rs. 50,000 during the year are as follows:

Continuing / discontinued operations	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Party
Rupees in '000-----							

Discontinued operations

Leasehold land:

Nooriabad land	4,308	—	4,308	19,105	14,797	Negotiation	Indus Heartland Ltd.
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Continuing operations

Vehicles:

Suzuki 2004 model AGP-703	617	486	131	140	9	Negotiation	Mr. Muhammad Faheem
Suzuki 2004 model AGD-732	303	240	63	75	12	Negotiation	Muhammad Altaf Ahmed
Suzuki 2006 model CR-3688	413	258	155	145	(10)	Negotiation	Munawar Ali
Suzuki mehran AGL-688	354	283	71	100	29	Negotiation	Mr. Bashir Ahmed
Suzuki car AKR-804	318	228	90	200	110	Negotiation	Mohammad Nasir
Suzuki cultus AHW-018	565	431	134	260	126	Negotiation	Mr. Farhan Bashir
Toyota Corolla AEF-889	1,050	926	124	725	601	Insurance claim	EFU General Insurance Limited
Suzuki van CR-6043	468	268	200	300	100	Negotiation	Mr. Zeeshan Kaleem Ali Khan
Suzuki mehran AJA-119	323	249	74	200	126	Negotiation	CMDS Foil (Pvt) Ltd.
	4,411	3,369	1,042	2,145	1,103		

Plant and machinery:

90 Juki machines	1,973	1,100	873	87	(786)	Negotiation	Mr. Tanveer Hussain
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Items in aggregate having net book value of Rs. 50,000

	271	212	59	98	39		
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Total continuing operations

6,655 4,681 1,974 2,330 356

Total rupees in '000

10,963 4,681 6,282 21,435 15,153



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11.2 Capital work-in-progress

	Note	2011	2010
(Rupees in '000)			
Opening balance at the beginning of the year		61,977	41,491
Additions during the year:			
Machines under installation		3,900	24,287
Building under construction		18,594	17,843
Others (electric fittings)		2,524	—
		25,018	42,130
Disposal of plant and machinery	11.2.1	(17,240)	—
Transferred to operating fixed assets		(40,157)	(21,644)
Closing balance at the end of the year		<u>29,598</u>	<u>61,977</u>

11.2.1 This represents disposal of a machinery at a loss of Rs. 14.823 million.

12 STORES AND SPARES

General stores		61,962	55,261
Chemicals		49,089	30,333
Packing stores		12,338	11,744
Less: Assets classified as held for sale		(654)	(654)
		122,735	96,684
Provision for slow moving		(23,928)	(23,928)
		<u>98,807</u>	<u>72,756</u>

13 STOCK-IN-TRADE

Raw material		66,837	34,035
Work-in-process		242,982	288,479
Finished goods		131,406	59,002
		441,225	381,516
Provision for slow moving raw material		(1,995)	(1,995)
		<u>439,230</u>	<u>379,521</u>

14 TRADE DEBTS - considered good

Unsecured

Export		621,657	342,428
Local		6,608	3,014
		<u>628,265</u>	<u>345,442</u>



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14.1 Trade debts include an amount of Rs. nil (2010: Rs.17.944 million) receivable from related party.

15 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
	(Rupees in '000)	
Advances - considered good		
Suppliers	8,633	14,107
Employees	51	274
Others	2,209	2,230
	10,893	16,611
Short term prepayments	222	571
Sales tax refundable	17,971	13,506
Export rebate	12,812	4,283
Duty drawback	49,268	9,995
Others	924	646
	<u>92,090</u>	<u>45,612</u>

16 CASH AND BANK BALANCES

Cash in hand	1,274	976
Cash at bank - current accounts	30,469	10,044
	<u>31,743</u>	<u>11,020</u>

17 ASSETS CLASSIFIED AS HELD FOR SALE

Fabric processing plant is presented as a disposal group held for sale. Efforts to sell the disposal group are in progress and expected to materialise in due course. At 30 June 2011 the disposal group comprise assets of Rs. 0.788 million (2010: 5.096 million). During the year, the land previously classified as held for sale has been disposed off at an aggregate gain of Rs. 14.797 million. For remaining assets, the Company's management remained committed for their sale and await appropriate offer for concluding the sale of assets held for sale.

18 SALES - net

Local	307,902	203,032
Export	2,663,626	1,609,831
Export rebate and duty drawback	69,453	32,883
	3,040,981	1,845,746
Less: Sales tax	(1,536)	(414)
Commission & others	(126,516)	(73,344)
	(128,052)	(73,758)
	<u>2,912,929</u>	<u>1,771,988</u>



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		2011	2010
		(Rupees in '000)	
19	COST OF SALES		
	Opening stock of finished goods	59,002	141,559
	Add: cost of goods manufactured	19.1 <u>2,587,557</u>	<u>1,365,884</u>
		2,646,559	1,507,443
	Less: closing stock of finished goods	<u>(131,406)</u>	<u>(59,002)</u>
		<u>2,515,153</u>	<u>1,448,441</u>
19.1	Cost of goods manufactured		
	Raw material consumed	19.1.1 1,715,553	871,321
	Stores consumed	246,566	182,658
	Salaries, wages and benefits	19.1.2 228,150	137,937
	Fuel, power and water	137,840	130,213
	Outside manufacturing charges	106,379	139,231
	Insurance	3,886	4,603
	Repair and maintenance	4,092	5,714
	Vehicle running expenses	2,389	3,713
	Communication and transportation	8,639	4,075
	Other manufacturing expenses	4,815	6,753
	Depreciation	83,751	90,193
		<u>2,542,060</u>	<u>1,576,411</u>
	Opening work-in-process	288,479	77,952
	Closing work-in-process	<u>(242,982)</u>	<u>(288,479)</u>
		<u>2,587,557</u>	<u>1,365,884</u>
19.1.1	Raw material consumed		
	Opening stock	34,035	52,580
	Purchases during the year	<u>1,748,355</u>	<u>852,776</u>
		1,782,390	905,356
	Less: closing stock	<u>(66,837)</u>	<u>(34,035)</u>
		<u>1,715,553</u>	<u>871,321</u>

19.1.2 This include amount of Rs.4.510 million (2010: 3.396 million) in respect of staff retirement benefits.



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20	ADMINISTRATIVE EXPENSES		2011	2010
			(Rupees in '000)	
	Salaries, wages and benefits	20.1	41,868	35,145
	Bad debts written off		—	847
	Rent, rates and taxes		62	176
	Vehicle running expenses		2,378	3,782
	Conveyance and traveling		918	792
	Printing and stationery		301	397
	Postage, telegram and telephone		478	532
	Legal and professional		3,202	4,106
	Subscriptions and renewals		335	377
	Software maintenance charges		738	987
	Security charges		1,459	578
	Depreciation		2,688	2,577
	Miscellaneous expenses		2,979	1,330
			<u>57,406</u>	<u>51,626</u>
20.1	This includes amount of Rs. 2.101 million (2010: 2.245 million) in respect of staff retirement benefits.			
21	DISTRIBUTION COST			
	Freight and insurance		71,651	64,078
	Forwarding charges		18,797	13,281
	Showroom and exhibitions		695	2,694
	Export development surcharge		5,719	3,656
	Market research		154	839
			<u>97,016</u>	<u>84,548</u>
22	OTHER OPERATING EXPENSES			
	Loss on disposal of property, plant and equipment		14,468	2,814
	Auditors' remuneration	22.1	1,100	800
	Workers' profit participation fund		9,349	8,216
	Workers' welfare fund		2,331	3,353
	Property, plant and equipment written off		—	4,176
	Donations	22.2	125	7
			<u>27,373</u>	<u>19,366</u>
22.1	Auditor's remuneration			
	Audit fee		500	500
	Half yearly review and audit		500	200
	Other certifications		100	100
			<u>1,100</u>	<u>800</u>
22.2	None of the directors and their spouses had any interest in these donations.			



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23	FINANCE COST	2011	2010
		(Rupees in '000)	
	Mark-up on:		
	- Long term finance	28,060	36,092
	- Short term borrowings	25,338	6,420
	Guarantee commission	466	436
	Bank charges	10,105	8,907
	Interest on WPPF	489	—
	Exchange gain - net	(8,481)	(21,097)
		55,977	30,758

24	TAXATION		
	Current	23,118	17,516
	Prior year charge / (income)	229	(4,717)
		23,347	12,799

24.1 The income tax assessments of the Company have been finalized upto and including tax year 2010.

24.2 The Company's income is chargeable to tax under final tax regime prescribed under the Income Tax Ordinance, 2001 and hence tax reconciliation is not being presented.

25	EARNINGS PER SHARE - FROM CONTINUING OPERATIONS	2011	2010
	- BASIC AND DILUTED	(Rupees in '000)	
	Profit after taxation	136,657	124,450
		(Number)	
	Weighted average number of ordinary shares	117,587,632	103,857,579
		(Rupees)	
	Earnings per share	1.16	1.20

26 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	2011				2010			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executive	Total
	Rupees							
Meeting fees	—	11	—	11	—	8	—	8
Managerial remuneration	8,400	—	24,199	32,599	6,440	840	5,310	12,590
Bonus	—	—	1,219	1,219	—	—	—	—
Retirement benefits	560	—	1,392	1,952	460	60	103	623
	8,960	11	26,810	35,781	6,900	908	5,413	13,221
No. of Persons	1	7	11	19	2	5	3	10

26.1 The Chief Executive and Directors are provided with the Company's maintained cars.



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27 CASH GENERATED FROM OPERATIONS - CONTINUING OPERATION

	Note	2011 (Rupees in '000)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		160,004	137,249
Adjustments for:			
Depreciation		86,439	92,770
Finance costs		55,977	30,758
Workers' welfare fund		2,331	3,353
Workers' profits participation fund		9,349	8,216
Bad debts written off		—	847
Property, plant and equipment written off		—	4,176
Loss on disposal of property, plant and equipment		14,468	2,814
Working capital changes	27.1	(162,794)	(274,422)
		<u>5,770</u>	<u>(131,488)</u>
		165,774	5,761

27.1 Working capital changes

Increase in current assets			
Increase in stores and spares		(26,051)	(20,378)
Increase in stock-in-trade		(59,709)	(115,523)
Increase in trade debts		(286,883)	(120,998)
Increase in advances, prepayments and other receivables		(46,478)	(14,099)
		<u>(419,121)</u>	<u>(270,998)</u>
Increase / (decrease) in current liabilities			
Increase / (decrease) in trade and other payables		256,327	(3,424)
		<u>(162,794)</u>	<u>(274,422)</u>

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

Cash and bank balances		31,743	11,020
Short term borrowings		(327,972)	(194,110)
		<u>(296,229)</u>	<u>(183,090)</u>

29 RESULTS FROM DISCONTINUED OPERATION

Gain on disposal of property, plant and equipment		<u>14,797</u>	<u>18,856</u>
Profit after taxation		<u>14,797</u>	<u>18,856</u>



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29.1 Earnings per share from discontinued operation

- Basic and diluted

	2011	2010
	(Rupees in '000)	
Profit after taxation	<u>14,797</u>	<u>18,856</u>
	(Number)	
Weighted average number of ordinary shares	<u>117,587,632</u>	<u>103,857,579</u>
	(Rupees)	
Earning per share	<u>0.126</u>	<u>0.182</u>

29.2 Cash generated from discontinued operation

Cash flows from operating activities	14,797	18,856
Profit before taxation		
Adjustment for:		
Gain on disposal of property, plant and equipment	<u>(14,797)</u>	<u>(18,856)</u>
Cash flows from operating activities	<u>—</u>	<u>—</u>
Cash flows from investing activities		
Sales proceeds on disposal of property, plant and equipment	<u>19,105</u>	<u>84,642</u>
Net cash generated from discontinued operation	<u>19,105</u>	<u>84,642</u>

30 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of group companies, directors and their close family members, major shareholders of the Company, key management personnel and staff provident fund. Remuneration and benefits to executives of the Company are in accordance with the terms of the employment while contribution to the provident fund is in accordance with staff service rules. Remuneration of chief executive, directors and executives is disclosed in note to the financial statements. Transactions with related parties and balances outstanding at the year end, other than those disclosed elsewhere in the financial statements are given below:



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Nature of transactions	Relationship	2011	2010
		(Rupees in '000)	
Sales of goods	Associate	67,923	222,876
Income from manufacturing and other services	Associate	214,191	123,365
Purchases	Associate	647,233	169,679
Manufacturing and other expenses	Associate	200,829	131,722
Right shares subscription - cash	Associate	—	58,912
Balances			
Payable to provident fund	Other	1,096	827
Payable to related parties - net	Associate	284,399	43,352

31 PRODUCTION CAPACITY

Towel	Looms		Production ('000 kgs)				
	Installed	Worked	Capacity Standard	Capacity Normal	Actual		
					Own	Commercial	Total
2011	106	106	8,400	6,759	5,041	2,660	7,701
2010	106	106	8,400	6,759	3,861	996	4,857

The short capacity utilisation during the last year was due to depressed world market conditions.

32 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.



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32.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same party, or when counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by change in economics, political or other conditions. Concentration of credit risk indicates that relative sensitivity of the Company's performance to development affecting a particular industry.

The carrying amount of financial assets represents the maximum credit exposure. To manage exposure to credit risk, the Company applies credit limits to their customers. Cash is held only with banks with high quality credit worthiness.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	2011	2010
	(Rupees in '000)	
Long term investment	10	10
Long term deposits	2,971	2,971
Trade debts	628,265	345,442
Advances, prepayments and other receivables	3,133	2,876
Bank balances	30,469	10,044
	<u>664,848</u>	<u>361,343</u>

The maximum exposure to credit risk at the balance sheet date by geographic region is as follows:

Domestic	96,128	3,014
United States	404,967	313,521
Gulf states	4,934	11,649
European countries	111,451	17,247
Other regions	10,785	11
	<u>628,265</u>	<u>345,442</u>

Impairment losses

The aging of trade debts at the balance sheet date was:

	2011		2010	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)		(Rupees in '000)	
Not past due	571,368	—	282,053	—
Past due 1-60 days	26,691	—	38,269	—
Past due 61 days -75 days	1,166	—	15,258	—
More than 75 days	29,040	—	9,862	—
Total	<u>628,265</u>	<u>—</u>	<u>345,442</u>	<u>—</u>



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Based on assessment conducted of individual customers, the management believes that receivable falling within the age bracket of upto one year does not require any impairment provision other than to the extent determined above.

Based on past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debts past due upto one year do not require any impairment except as provided in these financial statements, if any. None of the other financial assets are either past due or impaired.

The credit quality of Company's liquid funds is high since the counter parties are banks with reasonable external credit ratings.

32.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

On the reporting date, the Company has cash and bank balances and unutilised credit lines of Rs. 31.74 million (2010:Rs. 11.02 million) and Rs. Nil (2010: Rs.Nil) as mentioned in notes 6, 9 and 16.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying Amount	Contractual cash flows	2011		
			twelve months or less	Two to Five years	More than five years
(Rupees)					
Non-Derivative Financial liabilities					
Long term finance including accrued mark-up	340,559	(398,680)	177,407	221,273	—
Short term borrowings including accrued mark-up	335,101	(335,101)	335,101	—	—
Trade and other payables	406,779	(406,779)	406,779	—	—
	<u>1,082,439</u>	<u>(1,140,560)</u>	<u>919,287</u>	<u>221,273</u>	<u>—</u>
	Carrying Amount	Contractual cash flows	2010		
			twelve months or less	Two to Five years	More than five years
(Rupees)					
Non-Derivative Financial liabilities					
Long term finance including accrued mark-up	511,822	(570,833)	193,671	377,162	—
Short term borrowings including accrued mark-up	196,905	(196,905)	196,905	—	—
Trade and other payables	146,881	(146,881)	146,881	—	—
	<u>855,608</u>	<u>(914,619)</u>	<u>537,457</u>	<u>377,162</u>	<u>—</u>



32.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk and interest rate risk.

32.3.1 Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

Exposure to currency risk

The Company is exposed to currency risk on trade debts, sales, trade payables and purchases that are denominated in a currency other than the respective functional currency of the Company. The currencies in which these transactions are denominated is the US Dollars.

The Company's exposure to foreign currency risk is as follows:

	2011		2010	
	Rupees in '000	USD	Rupees in '000	USD
Trade debts	621,657	7,231	342,428	4,200
Trade payables	(58,000)	(676)	—	—
Gross balance sheet exposure	563,657	6,555	342,428	4,200
Outstanding letters of credit	(11,663)	(136)	(36,416)	(426)
	<u>551,994</u>	<u>6,419</u>	<u>306,012</u>	<u>3,774</u>

The following significant exchange rates have been applied:

	Average rate		Reporting date rate	
	2011	2010	2011	2010
		(Rupees)		(Rupees)
USD to PKR	85.38	83.53	85.85	85.40

Sensitivity Analysis

A 10 percent strengthening / weakening of the PKR against USD at 30 June would have decreased / increased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	2011	2010
	(Rupees in '000)	
Increase / decrease	<u>36,579</u>	<u>23,314</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit / loss for the year and assets and liabilities of the Company.



32.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks. At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
	2011	2010
	(Rupees in '000)	
Financial liabilities		
<i>Fixed rate instruments</i>		
Long term finance	321,895	468,383
<i>Variable rate instruments</i>		
Short term borrowings	327,972	200,635

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Effect on profit and loss	
	100 bp increase	100 bp decrease
	(Rupees in '000)	
As at 30 June 2011		
Cash flow sensitivity-Variable rate instruments	2,132	(2,132)
As at 30 June 2010		
Cash flow sensitivity-Variable rate instruments	1,304	(1,304)

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and liabilities of the Company.

32.3.3 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

33 OPERATING SEGMENTS

These financial statements have been prepared on the basis of a single reportable segment.

- 33.1 Revenue from export sales represents 94% (2010 : 94%) of the total revenue of the Company.
- 33.2 All non-current assets of the Company at 30 June 2011 are located in Pakistan.



34 CAPITAL RISK MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business, safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

35 CORRESPONDING FIGURES

Previous year's figures are re-arranged and re-classified wherever necessary for the purpose of better presentation as follows. The effect of these reclassifications is immaterial.

Reclassification from component	Reclassification to component	(Rupees in'000)
Loans and advances	Advances, prepayments and other receivables	16,611
Short term prepayments	Advances, prepayments and other receivables	571
Other receivables	Advances, prepayments and other receivables	28,431
Workers' profits participation fund	Other operating expenses	8,216
Workers' welfare fund	Other operating expenses	3,353
Cost of sales	Cost of sales	
(Other manufacturing expenses)	(Vehicle running expenses)	3,713
	(Communication and transportation)	4,075
	(Salaries, wages and benefits)	1,123
Administrative expenses	Administrative expenses	
(Miscellaneous expenses)	(Subscriptions and renewals)	377
	(Software maintenance charges)	987
	(Security charges)	578
Trade debts	Trade and other payable	16,226
(Export)	(Creditors)	
Trade debts	Trade and other payable	
(Local)	(Creditors)	29,805
Distribution cost	Distribution cost	
(Exhibitions)	(Showroom and exhibitions)	373
Distribution cost	Distribution cost	
(Sales promotion)	(Showroom and exhibitions)	2,321

36 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on October 03, 2011 has proposed a cash dividend of Rs. 2.0 per share amounting to Rs. 524,350 in aggregate for all shareholders of the Company except directors, their relatives and associates for approval of the members at the annual General Meeting to be held on October 29, 2011. These financial statements do not include the effect of this proposed cash dividend which will be accounted for in the financial statements for the year ending June 30, 2012.

37 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue on October 03, 2011 by the Board of Directors of the Company.

REHAN RAHMAN
CHIEF EXECUTIVE

SHABBIR AHMED
DIRECTOR



Feroze1888 Mills Limited

(Formerly Nakshbandi Industries Limited)

PROXY FORM

I/We, _____

of _____

being a member of **FEROZE1888 MILLS 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 my behalf at the **39th Annual General Meeting** of the Company to be held on Saturday, October 29, 2011 at 03:00 p.m. and at any adjournment thereof.

Signed this _____ day of _____ 2011.

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 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.



1888 MILLS

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