# Brief Profile

Nishat (Chunian) Limited was incorporated in 1990 as a public limited company with an equity investment of Rupees 100 million. A spinning mill having a capacity of 14,400 spindles was established at Bhai Pheru, Tehsil Chunian. It started commercial production on 10 March 1991. The capacity was enhanced to 19,200 spindles in 1998. In 1998, the Company diversified its business interest by venturing into a weaving project with the installation of 99 air jet looms. A new state of art spinning unit started production in November 2000, increasing the total spinning capacity to about 40,872 spindles. Subsequently weaving capacity was increased to 212 air jet looms while the spinning capacity was increased to 50,952 spindles. During the period ended 30 June 2005, the Company enhanced its spinning capacity substantially by acquiring the operating assets of Umer Fabrics Limited comprising of 38,544 spindles and by addition of a new spinning unit with 40,128 spindles. In 2006, the Company also diversified into Home Textile Business. The Company is currently operating with 147,926 spindles, 293 looms, a modern dyeing and finishing plant having capacity of 71,000 meters per day and captive power plants with a total capacity of 33MW.

Nishat Chunian Power Limited (NCPL) was incorporated in February 23, 2007, is a subsidiary of Nishat (Chunian) Limited. The gross capacity of the NCPL is 200MW and is operating as an independent power producer, selling its electricity to National Transmission & dispatch company. The Company successfully commenced commercial operations on 21 July 2010.

# Contents

# Company Information

| | | |
|---|---|---|
| Board of Directors: | Mr. Muhammad Saleem | Chairman |
| | Mrs. Farhat Saleem | |
| | Mr. Shahzad Saleem | Chief Executive |
| | Mr. Manzoor Ahmed | Nominee NIT |
| | Mr. Aftab Ahmad Khan | |
| | Mr. Manzar Mushtaq | |
| | Mr. Mehmood Akhtar | |
| Audit Committee: | Mr. Aftab Ahmad Khan | Chairman |
| | Mr. Shahzad Saleem | Member |
| | Mr. Manzar Mushtaq | Member |
| Company Secretary: | Mr. Ahmad Subhani | |

**Bankers to the Company:**

Allied Bank Limited
Askari Bank Limited
Atlas Bank Limited
Bank Alfalah Limited
Barclays Bank plc
Citibank N.A.
Dawood Islamic Bank Limited
Deutsche Bank AG
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
Habib Bank Limited
HSBC Bank Middle East Ltd.
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Standard Chartered Bank Pakistan Limited
The Bank of Punjab
The Royal Bank of Scotland Limited
United Bank Limited

**Auditors:**

Riaz Ahmad & Company
Chartered Accountants

**Registered & Head Office:**

31-Q, Gulberg-II,
Lahore, Pakistan.
Phone : 5761730-39
Fax : 5878696-97
Web : http://nishat.net & www.nishatchunian.com

**Share Registrar:**

Hameed Majeed Associates (Pvt) Limited
1st Floor, H.M. House
7-Bank Square, Lahore
Ph: 042 37235081-2
Fax: 042 37358817

**Mills:**

Spinning 1, 4 & 5
49th Kilometre, Multan Road,
Bhai Pheru, Tehsil Chunian,
District Kasur.

Spinning 2, 3 & Weaving
49th Kilometre, Multan Road,
Kamogal, Tehsil Pattoki,
District Kasur.

Dyeing & Printing
4th Kilometre, Manga Road,
Raiwind.

# Notice of Annual General Meeting

Notice is hereby given that the 21st Annual General Meeting of the Shareholders of Nishat (Chunian) Limited will be held at the Registered Office of the Company, 31-Q, Gulberg II, Lahore on 30th October 2010 at 11.30 A.M to transact the following business:-

1. To confirm the minutes of the last General Meeting.
2. To receive and adopt audited accounts of the Company for the year ended 30 June 2010 together with Directors' and Auditors' reports thereon.
3. To approve 15% cash dividend for ordinary shares and 15% preferential dividend for preference shares as recommended by the Board of Directors.
4. To appoint auditors for the year ending 30 June 2011 and to fix their remuneration. The present auditors M/s Riaz Ahmad & Co., Chartered Accountants, retire and being eligible offer themselves for reappointment.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Ahmad Subhani
Company Secretary

Lahore: 08 October 2010

Notes:

1. The Members' Register will remain closed from 29-10-2010 to 04-11-2010 (both days inclusive).Transfers received at Hameed Majeed Associate (Pvt) Limited, H.M. House, 7-Bank Square, Lahore, the Registrar and share transfer office of the Company by the close of business on 28-10-2010 will be considered in time for attending the AGM and also for 15% cash Dividend and 15% preferential dividend's entitlements.
2. A member eligible to attend and vote at this meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received by the company at the Registered Office not later than 48 hours before the time for holding the meeting.
3. Shareholders are requested to immediately notify the change in address, if any.
4. CDC account holders will further have to follow the guidelines as laid down in circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

   a. For attending the meeting
      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 original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
      ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting

   b. For Appointing Proxies
      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 form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
      iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
      iv) The proxy shall produce his 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 signatures shall be submitted (unless it has been provided earlier) along with proxy form to the company.

# Directors' Report

## Directors' Report

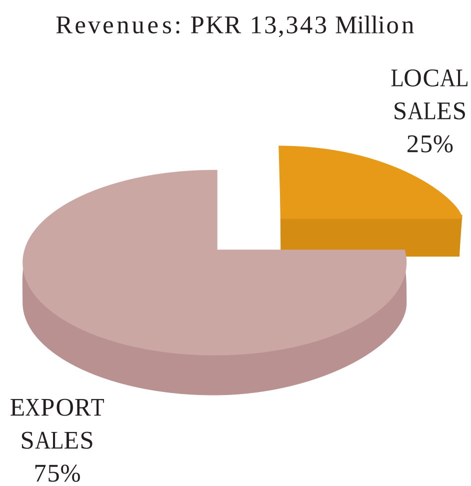
The directors of Nishat (Chunian) Limited are pleased to present Annual Report of the Company for the year ended June 30, 2010.

During the year under review, the Company's performance is its historic best. Brief financial highlights are given below:

| | 2008-09 | 2009-10 | Variance |
|---|---|---|---|
| Sales | 9,964,545 | 13,343,540 | 34% |
| Gross Profit | 1,491,183 | 2,611,848 | 75% |
| Operating Profit | 1,249,880 | 2,166,311 | 73% |
| Finance Cost | 1,081,536 | 1,101,054 | 1.8% |
| Profit before Tax | 168,344 | 1,065,257 | 533% |
| Profit After Tax | 103,344 | 931,474 | 801% |

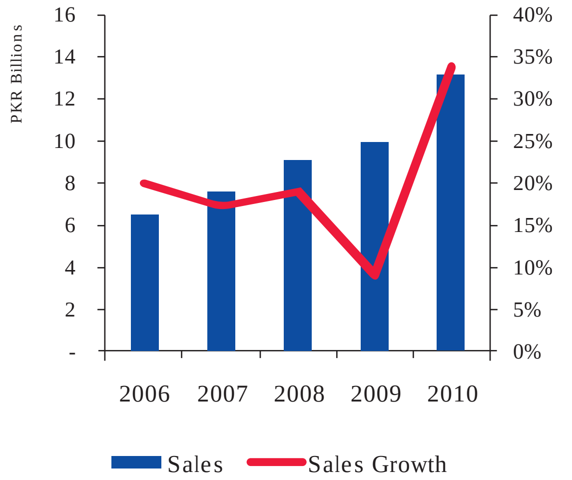
(All amounts in thousands)

.Sales during the year are highest ever at PKR 13,344 million as compared to PKR 9,965 million during last year which shows an increase of 33.9%. Increase in sales is because of higher product prices, higher exchange rate parity and better capacity utilization. With the increase in sales, gross margin has substantially improved to 19.6% as compared to 14.96% last year. The borrowing cost reduced to 8.25% of sales as compared to 10.85% of sales during corresponding year. As a result, company's net profit margin significantly improved to 7.06% as compared to 1.0% last year

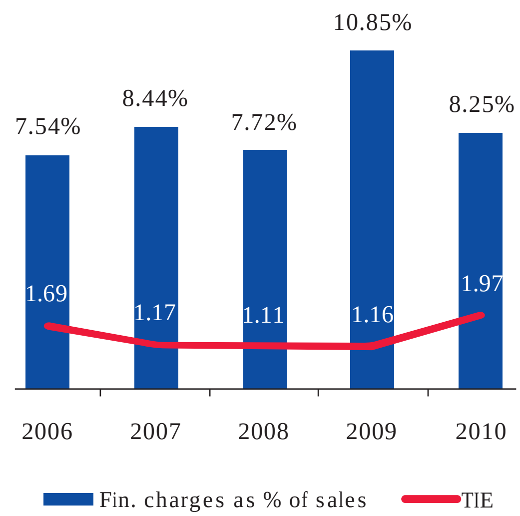



## Financial Cost and Capital Structure

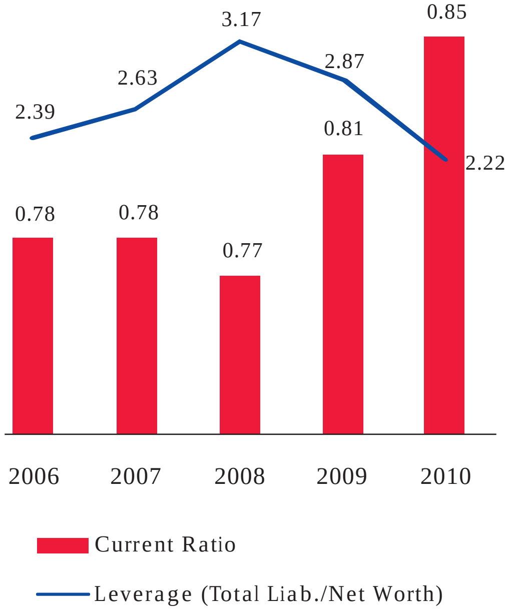
Company's average bank borrowing during this year increased by around PKR 650 million over the previous year's borrowing level.




However increase in borrowing cost because of additional borrowing, was partially mitigated by more Export Refinance Loans (ERF) utilization in our working capital lines. Average ERF availment almost doubled to PKR 2,000 million during the year, as home textiles sales eligible for ERF also doubled. Times Interest Earned (TIE) ratio of the Company improved to 1.97 as compared to 1.16 for the previous period.



We have always strived to maintain a conservative capital structure of the company, given the cyclical nature of textiles business. Investments made by the Company are financed through a mix of fresh equity issuances, retained earnings and debt, keeping in view the target gearing level. Despite capital expenditure on textile machinery and investment made in NCPL, leverage ratios of NCL have improved over last year. NCL's investment in NCPL is financed through internal cash generation, preference shares issue of PKR 414 million in May 2009 and ordinary shares right issue of PKR 414 million in November 2009.




## Profitability and Return on Equity

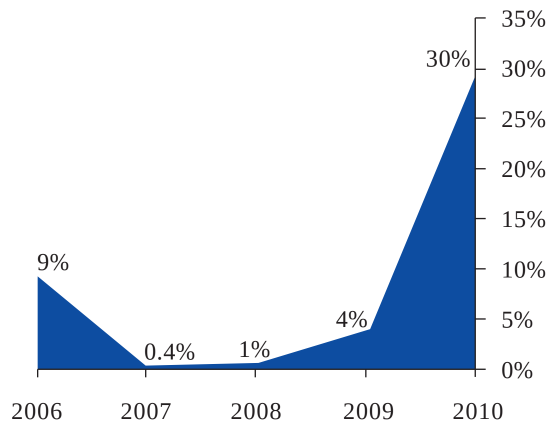
Major contribution in this year's profitability is from spinning business. In last quarter of the year, spinning segment profitability improved markedly because of sharp increase in yarn prices. However profitability of Weaving and Home Textiles Divisions were negatively affected by high yarn prices. This year sales of Home Textiles division increased to USD 48 Million from USD 25 Million last year, resulting in better capacity utilization. Company earned a profit after tax of around PKR 531 million during last quarter of the year.

The positive variances in the sales, gross profit and profit after tax led to 30% return on shareholder's equity during the year. Total debt to equity ratio also improved to 69:31 as compared to 74:26 for the previous year.

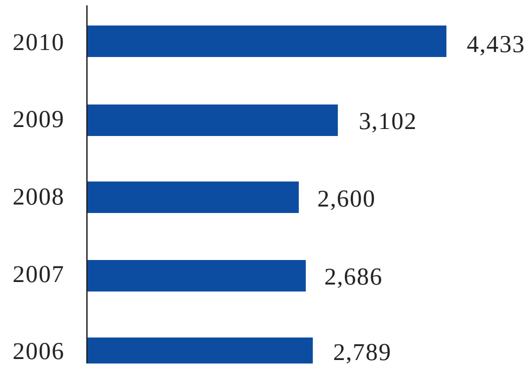
## Dividends

Directors have proposed to pay 15% cash dividend on outstanding preference shares & ordinary shares. This will amount to a total of around PKR 248 million.

Return on Equity




Shareholder’s Equity (Millions)



## Business segments review

### Spinning

The period under review was a year of unprecedented profits for the spinning segment in Pakistan. Cotton prices increased from PKR 3300/maund in July 2009 to around PKR 6600/maund by the end of June 2010. The main reason for the record increase in prices was cotton crop failure in China. The resulting cotton shortage as well as reduction in spinning capacity in China pushed up the demand and the prices of yarn worldwide. We were able to capitalize on the rising yarn prices because of timely procurement of cotton. A temporary quota on yarn exports was placed by the Government of Pakistan because the downstream value added sector, who had based their export commitments upon much lower yarn prices, suddenly found themselves in a quandary when the yarn prices increased for the domestic market. It resulted in a minor setback for our yarn exports while the local sales of yarn show a steep rise over the previous years.

This year we made investment in spinning division of about PKR 150 million whereby compact spinning frames and other spinning machinery were added.

### Weaving

The period under review presented hard challenges for the weaving segment. The main reason was the rising trend in the yarn prices for reasons described in the spinning section. While sales went up, both in volume and dollar terms, profit margins were difficult to maintain as increase in yarn price was not completely absorbed at the customer end. As a result of these developments and fierce competition from regional players in China and Indonesia, weaving segment profitability remained depressed.

The marketing strategy adopted to tackle the challenges at hand stressed on repeat purchases by existing customers by providing quality product within time constraints. Efforts were made to broaden the customer base by emphasizing on new market development as well as product development. Market penetration was achieved by participating in textile fairs in Europe, Turkey, China and North America which resulted in acquisition of new customers.

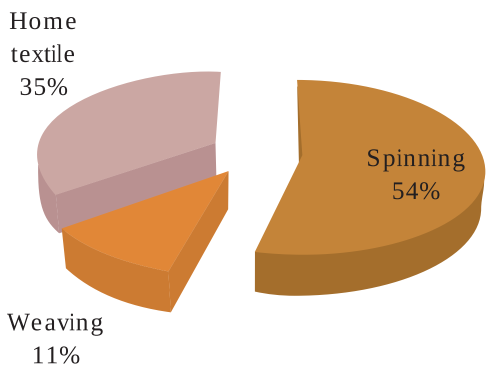
We are replacing 77 of our old 1998 model airjet looms with new state of the art Picanol Airjet Looms. While electricity cost will remain same on these new looms, output will increase by 30-40% which will result in higher profitability.

### Home Textiles

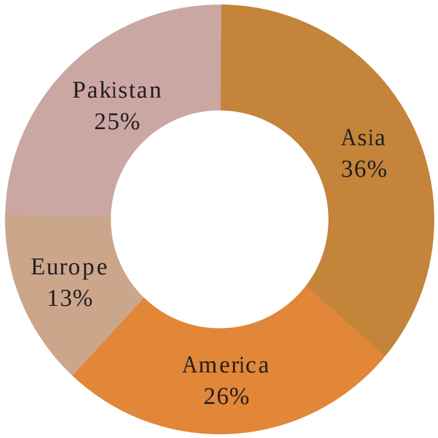
This has been a unique year for value added sector. Since the contracts of Home textile products are long term in nature thus it took us quite some time to get customers acceptance of price increases due to the hike in raw material prices. We were able to get price increases to some extent but the total price increase in raw material and cost of production could not be passed on completely to the end customer. Competition from regional players such as China, India and Bangladesh put further pressure.

Segment wise third party Sales

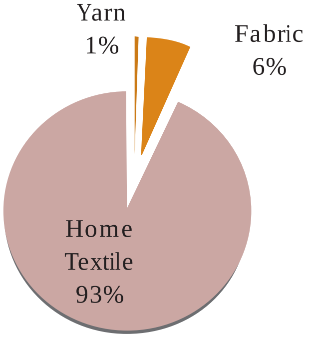
Sales: PKR 13,344 Million



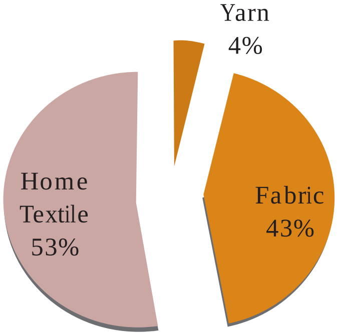
Sales by Geographical regions



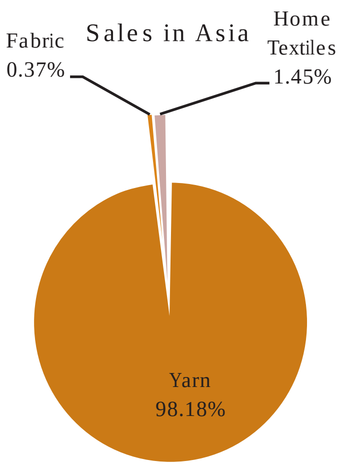

Sales in America




Sales in Europe




Sales in Asia




This year the positive development was substantial increase in home textile orders due to which the sales of the home textile business increased from PKR 2,227 Million to PKR 4,645 Million, a percentage increase of 108.58%. The gross profit for the home textile business decreased to 10.49% as compared to 15.58% for the period ending June 2009 because of higher raw material costs.

We have focused on expanding the customer base by exploring new markets in Europe and South America. We also focused on R&D for variation in existing product lines and successfully developed niche products for our customers.

During the year, we set up a Printing Division with a capacity of 700,000 meters/month, at a cost of about PKR 225 million. The Printing division will increase the sales of our home textile division. Firstly because it adds a new product line it will increase customer base. Secondly it will increase the volume of sales to existing customers by complementing the existing product lines. Thirdly it will enhance our portfolio of home textile products with more value added products which have higher margins.

## Investment in NCPL

During the year we made an investment of around PKR 1,072 million in our subsidiary Nishat Chunian Power Limited, in the shape of equity and subordinated debt. Presently NCL's total investment in NCPL stands at PKR 2,596 million. As of now, no further investments are required to be made by NCL into NCPL in future. NCPL plant has become operational with a delay of only 21 days from the required Commercial Operations Date committed with WAPDA. NCPL is a company listed on Karachi and Lahore Stock Exchanges.

## Future Outlook

Devastating floods have dealt a further blow to the Pakistan's economy and Pakistan's main cotton growing areas in Punjab and Sindh are severely affected because of floods. On account of damage to the cotton crop in Pakistan and less cotton production in China, cotton has rallied to the highest price in more than 15 years. This year outlook for textile businesses is quite uncertain.

For our future cash requirements, we have decided to tap capital markets as well. In this regard we planned a Privately Placed Term Finance Certificate (PPTFC) issue of PKR 500 million. JCR-VIS has issued A+ rating to this PPTFC issue. Proceeds from this PPTFC issue were disbursed to NCL in September 2010.

Our subsidiary Nishat Chunian Power Limited is fully operational and is dispatching electricity as per the requirement of WAPDA. NCPL is expected to have healthy profitability with minimum variation in profits. We expect to receive cash dividends of around PKR 300-400 million every year from NCPL. Steady stream of dividends from NCPL will help NCL smooth variation in its earnings.

## Corporate Governance

As required by the Code of Corporate Governance, Directors are pleased to report that:

a. The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

b. Proper books of accounts have been maintained by the Company.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.

d. The International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements.

e. The system of internal controls is sound in design and has been effectively implemented and monitored.

f. There are no doubts upon the Company’s ability to continue as a going concern.

g. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations of the stock exchanges.

h. The value of investment of contributory provident fund as at 30 June 2010 amounts to Rupees 121.36 million.

i. The pattern of shareholding as at 30 June 2010 is annexed.

## Board Meetings

During the year under review Six (6) meeting were held. Attendance by each director is as follows:

| Name of Director | | Attendance |
|---|---|---|
| Mr. Muhammad Saleem | (Chairman) | 6 |
| Mr. Shahzad Saleem | (Chief Executive) | 5 |
| Mrs. Farhat Saleem | | 5 |
| Mr. Manzoor Ahmad | (Nominee NIT) | 5 |
| Mr. Aftab Ahmad Khan | | 3 |
| Mr. Manzar Mushtaq | | 0 |
| Mr. Mehmood Akhtar | | 3 |

On behalf of the Board

Shahzad Saleem
Chief Executive

Lahore: 08 October 2010

# Financial Highlights

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006* | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | | | |
| Capital | 403,200 | 403,200 | 443,520 | 443,520 | 683,644 | 752,008 | 752,008 | 752,008 | 1,240,814 | 1,654,418 |
| Reserves | 340,409 | 742,888 | 919,106 | 1,444,303 | 1,992,547 | 2,036,835 | 1,934,191 | 1,848,186 | 1,861,657 | 2,778,092 |
| Net Worth | 743,609 | 1,146,088 | 1,362,626 | 1,886,823 | 2,676,191 | 2,788,843 | 2,686,199 | 2,600,194 | 3,102,471 | 4,432,510 |
| Long Term Liabilities | 476,321 | 865,539 | 589,642 | 1,116,667 | 2,780,833 | 3,413,020 | 2,984,127 | 2,591,030 | 3,183,458 | 2,729,938 |
| Current Liabilities | 1,130,202 | 773,885 | 1,110,277 | 1,355,126 | 2,790,559 | 3,263,315 | 4,083,538 | 5,646,893 | 5,730,881 | 7,089,429 |
| Total Equity & Liabilities | 2,350,132 | 2,785,512 | 3,062,545 | 4,358,616 | 8,247,583 | 9,465,178 | 9,753,863 | 10,838,116 | 12,016,810 | 14,251,879 |
| Fixed Assets | 1,537,288 | 1,829,775 | 1,954,767 | 2,837,084 | 5,778,293 | 6,903,335 | 6,544,227 | 6,259,570 | 5,927,348 | 5,970,253 |
| Long Term Deposits & Advances | 545 | 545 | 426 | 386 | 1,800 | 4,828 | 7,829 | 9,026 | 4,621 | 391,207 |
| Current Assets | 812,299 | 955,192 | 1,107,352 | 1,521,146 | 2,467,490 | 2,557,015 | 3,201,807 | 4,357,788 | 4,646,949 | 6,016,949 |
| Total Assets | 2,350,132 | 2,785,512 | 3,062,545 | 4,358,616 | 8,247,583 | 9,465,178 | 9,753,863 | 10,626,384 | 10,578,918 | 14,251,879 |
| Sales | 3,066,830 | 4,054,099 | 4,226,715 | 6,516,226 | 5,454,231 | 6,550,782 | 7,677,539 | 9,138,298 | 9,964,545 | 13,343,539 |
| Gross Profit | 684,287 | 966,745 | 742,242 | 968,808 | 1,225,206 | 1,168,532 | 957,209 | 1,040,880 | 1,491,183 | 2,611,848 |
| Operating Profit plus Other Income | 523,634 | 781,787 | 519,004 | 796,705 | 947,262 | 834,845 | 759,303 | 782,001 | 1,249,880 | 2,166,311 |
| Financial & Other charges | 237,811 | 218,099 | 143,586 | 111,014 | 187,899 | 494,045 | 648,146 | 705,822 | 1,081,536 | 1,101,054 |
| Taxation | 36,903 | 60,409 | 48,000 | 50,614 | 37,542 | 90,000 | 101,000 | 58,000 | 65,000 | 133,783 |
| Net Profit | 248,920 | 503,279 | 327,418 | 635,077 | 721,822 | 250,800 | 10,157 | 18,180 | 103,344 | 931,474 |
| Gross Margin | 22.3% | 18.9% | 17.6% | 14.9% | 22.5% | 17.8% | 12.47% | 11.39% | 14.96% | 19.57% |
| Net Margin | 8.1% | 12.4% | 7.7% | 9.7% | 13.2% | 3.8% | 0.13% | 0.20% | 1.04% | 6.98% |
| Current Ratio | 0.72 | 1.23 | 1.00 | 1.12 | 0.88 | 0.78 | 0.78 | 0.77 | 0.81 | 0.85 |
| Leverage (Total Liab./Net Worth) | 2.16 | 1.43 | 1.25 | 1.31 | 2.08 | 2.39 | 2.63 | 3.17 | 2.87% | 2.215 |
| Long Term Debt : Equity | 39:61 | 43:57 | 30:70 | 37:63 | 51:49 | 55:45 | 53:47 | 50:50 | 51:49 | 61:39 |
| EPS ** | 3.31 | 6.69 | 4.35 | 8.45 | 9.60 | 3.34 | 0.14 | 0.22 | 1.19 | 7.89 |

* Performance figures for 2005 are for the period of nine months.

** Restated as per IAS 33 (Earnings per share)

# Statement of Compliance

## with the Code of Corporate Governance for the year ended 30 June 2010

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 (Chapter XI) of listing regulations of Karachi Stock Exchange (Guarantee) Limited and Clause 35 (Chapter XI) of the listing regulations of Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occured during the year.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by 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 meetings were appropriately recorded and circulated.

9. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.

10. The appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms & conditions of their appointment have been duly approved by the Board.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final

results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function with suitably qualified and experienced staff, conversant with the policies and procedures of the Company and involved in the internal audit function on a full time basis.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 ICAP.

19 The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

Shahzad Saleem
Chief Executive

Lahore: 08 October 2010

# Statement of Compliance

## with the Best Practices on Transfer Pricing

The Company has fully complied with the best practices on Transfer Pricing as contained in the related Listing Regulations of the Karachi and Lahore Stock Exchanges.

Shahzad Saleem
Chief Executive

Lahore: 08 October 2010

# Review Report

## to the members on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NISHAT (CHUNIAN) LIMITED ("the Company") for the year ended 30 June 2010, to comply with the Listing Regulations of the respective Stock Exchanges, 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, Listing Regulations of Karachi & Lahore Stock Exchanges require 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 out 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 2010.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Syed Mustafa Ali

Date: 08 October 2010

LAHORE

# Auditors’ Report to the Members

We have audited the annexed balance sheet of NISHAT (CHUNIAN) LIMITED as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company’s management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by 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 account 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 account and are further in accordance with accounting policies consistently applied except for the changes as stated in Note 2.1 (d)(i) and Note 2.12 with which we concur;

  ii) the expenditure incurred during the year was for the purpose of the company’s business; and

  iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company’s affairs as at 30 June 2010 and of the profit, its comprehensive income,its 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 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Syed Mustafa Ali

Date: 08 October 2010

LAHORE

# Balance Sheet as at

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorized share capital | 3 | 1,950,000,000 | 1,750,000,000 |
| Issued, subscribed and paid up share capital | 4 | 1,654,418,440 | 1,240,813,830 |
| Reserves | 5 | 2,778,092,206 | 1,861,657,101 |
| Total Equity | | 4,432,510,646 | 3,102,470,931 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term financing | 6 | 2,729,938,648 | 3,181,905,316 |
| Deferred tax liability | 7 | - | 1,552,252 |
| | | 2,729,938,648 | 3,183,457,568 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | 662,321,821 | 454,523,239 |
| Accrued mark-up | 9 | 216,443,282 | 171,523,906 |
| Short term borrowings | 10 | 4,667,797,672 | 3,500,578,041 |
| Current portion of non-current liabilities | 11 | 1,542,866,668 | 1,604,255,864 |
| | | 7,089,429,443 | 5,730,881,050 |
| TOTAL LIABILITIES | | 9,891,368,091 | 8,914,338,618 |
| CONTINGENCIES AND COMMITMENTS | 12 | - | - |
| TOTAL EQUITY AND LIABILITIES | | 14,251,878,737 | 12,016,809,549 |

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

CHIEF EXECUTIVE

# 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 5,970,253,169 | 5,927,347,672 |
| Investment in subsidiary company | 14 | 1,873,469,390 | 1,437,891,880 |
| Long term loans | 15 | 390,111,778 | 3,537,975 |
| Long term security deposits | | 1,095,442 | 1,082,942 |
| | | 8,234,929,779 | 7,369,860,469 |
| CURRENT ASSETS | | | |
| Stores, spare parts and loose tools | 16 | 410,722,936 | 333,919,097 |
| Stock in trade | 17 | 3,166,585,745 | 2,183,103,730 |
| Trade debts | 18 | 1,518,724,508 | 1,516,728,987 |
| Loans and advances | 19 | 234,065,387 | 372,218,019 |
| Short term prepayments | | 194,704 | 487,724 |
| Other receivables | 20 | 341,809,768 | 211,045,658 |
| Accrued interest | 21 | 5,571,439 | - |
| Cash and bank balances | 22 | 90,774,521 | 29,445,865 |
| | | 5,768,449,008 | 4,646,949,080 |
| Non-current asset held for sale | 23 | 248,499,950 | - |
| | | 6,016,948,958 | 4,646,949,080 |
| TOTAL ASSETS | | 14,251,878,737 | 12,016,809,549 |

DIRECTOR

# Profit and Loss Account
## for the year ended 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| Sales | 24 | 13,343,539,563 | 9,964,545,471 |
| Cost of sales | 25 | 10,731,691,909 | 8,473,362,242 |
| Gross profit | | 2,611,847,654 | 1,491,183,229 |
| Distribution cost | 26 | 438,360,713 | 291,799,017 |
| Administrative expenses | 27 | 111,713,760 | 105,656,507 |
| Other operating expenses | 28 | 81,833,501 | 16,467,327 |
| | | 631,907,974 | 413,922,851 |
| | | 1,979,939,680 | 1,077,260,378 |
| Other operating income | 29 | 186,371,206 | 172,619,698 |
| Profit from operations | | 2,166,310,886 | 1,249,880,076 |
| Finance cost | 30 | 1,101,054,097 | 1,081,536,433 |
| Profit before taxation | | 1,065,256,789 | 168,343,643 |
| Taxation | 31 | 133,782,914 | 65,000,000 |
| Profit after taxation | | 931,473,875 | 103,343,643 |
| Basic earnings per share | 32 | 7.89 | 1.19 |
| Diluted earnings per share | 32 | 6.13 | 0.83 |

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

CHIEF EXECUTIVE

DIRECTOR

# Statement of Comprehensive Income

## for the year ended 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| Profit after taxation | | 931,473,875 | 103,343,643 |
| Other comprehensive income | | | |
| Gain arising during the year on quanto interest rate swap entered into as part of cash flow hedge | | - | 2,725,201 |
| Reclassification adjustment for gain included in profit or loss | | (4,435,005) | (11,547,388) |
| Deferred income tax relating to other comprehensive income | | 1,552,252 | 3,087,765 |
| Net loss recognized in other comprehensive income | | (2,882,753) | (5,734,422) |
| Total comprehensive income for the year | | 928,591,122 | 97,609,221 |

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

CHIEF EXECUTIVE

DIRECTOR

# Cash Flow Statement
## for the year ended 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 33 | 1,828,689,301 | 1,584,810,043 |
| Net increase in long term deposits | | (12,500) | (187,000) |
| Finance cost paid | | (1,056,134,721) | (1,029,834,966) |
| Income tax paid | | (142,413,974) | (79,006,443) |
| Net decrease in long term loans | | 65,157 | 4,591,697 |
| Net cash generated from operating activities | | 630,193,263 | 480,373,331 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditure on property, plant and equipment | | (561,129,419) | (216,041,103) |
| Capital expenditure on intangible assets | | (4,991,943) | - |
| Proceeds from sale of property, plant and equipment | | 7,925,094 | 11,227,536 |
| Investment in subsidiary company | | (685,577,460) | (1,226,159,080) |
| Long term loan to subsidiary company | | (386,638,960) | - |
| Interest received on loan to subsidiary company | | 1,222,958 | - |
| Net cash used in investing activities | | (1,629,189,730) | (1,430,972,647) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from long term financing | | 1,290,900,000 | 1,537,333,333 |
| Repayment of long term financing | | (1,804,255,864 | (1,295,299,142) |
| Short term borrowings - net | | 1,167,219,631 | 309,861,903 |
| Proceeds from issuance of preference shares | | - | 413,604,610 |
| Proceeds from issuance of right shares | | 413,604,610 | - |
| Share issuance cost | | (1,822,251) | (3,667,721) |
| Dividend paid | | (5,321,003) | (33,656) |
| Net cash from financing activities | | 1,060,325,123 | 961,799,327 |
| Net increase in cash and cash equivalents | | 61,328,656 | 11,200,011 |
| Cash and cash equivalents at the beginning of the year | | 29,445,865 | 18,245,854 |
| Cash and cash equivalents at the end of the year | | 90,774,521 | 29,445,865 |

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

CHIEF EXECUTIVE

DIRECTOR

# Statement of Changes in Equity

## for the year ended 30 June 2010

| | SHARE CAPITAL | | | RESERVES | | | | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| | | | | CAPITAL RESERVE | REVENUE RESERVES | | TOTAL | |
| | Ordinary shares | Preference shares | TOTAL | Hedging reserve | General reserve | Unappropr- iated profit | | |
| | ................................... Rupees ................................... | | | | | | | |
| Balance as at 30 June 2008 | 752,008,380 | - | 752,008,380 | 8,617,175 | 1,629,221,278 | 210,347,197 | 1,848,185,650 | 2,600,194,030 |
| Bonus share issued @ 10% | 75,200,840 | - | 75,200,840 | - | - | (75,200,840) | (75,200,840) | - |
| 15% non-voting cumulative convertible preference shares issued | - | 413,604,610 | 413,604,610 | - | - | - | - | 413,604,610 |
| Shares issuance cost, net | - | - | - | - | - | (3,667,721) | (3,667,721) | (3,667,721) |
| Preference dividend for the year ended 30 June 2009 | - | - | - | - | - | (5,269,209) | (5,269,209) | (5,269,209) |
| Total comprehensive income for the year ended 30 June 2009 | - | - | - | (5,734,422) | - | 103,343,643 | 97,609,221 | 97,609,221 |
| Balance as at 30 June 2009 | 827,209,220 | 413,604,610 | 1,240,813,830 | 2,882,753 | 1,629,221,278 | 229,553,070 | 1,861,657,101 | 3,102,470,931 |
| Ordinary shares issued | 413,604,610 | - | 413,604,610 | - | - | - | - | 413,604,610 |
| Shares issuance cost, net | - | - | - | - | - | (1,822,251) | (1,822,251) | (1,822,251) |
| Preference shares converted into ordinary shares | 344,712,840 | (344,712,840) | - | - | - | - | - | - |
| Preference dividend for the year ended 30 June 2010 | - | - | - | - | - | (10,333,766) | (10,333,766) | (10,333,766) |
| Total comprehensive income for the year ended 30 June 2010 | - | - | - | (2,882,753) | - | 931,473,875 | 928,591,122 | 928,591,122 |
| Balance as at 30 June 2010 | 1,585,526,670 | 68,891,770 | 1,654,418,440 | - | 1,629,221,278 | 1,148,870,928 | 2,778,092,206 | 4,432,510,646 |

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

CHIEF EXECUTIVE

DIRECTOR

## 1. THE COMPANY AND ITS OPERATIONS

Nishat (Chunian) Limited is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on the Lahore and Karachi Stock Exchanges. Its registered office is situated at 31-Q, Gulberg II, Lahore. The Company is engaged in business of spinning, weaving, dyeing, printing, stitching, processing, doubling, sizing, buying, selling and otherwise dealing in yarn, fabric and made-ups made from raw cotton, synthetic fiber and cloth and to generate, accumulate, distribute, supply and sell electricity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

### 2.1 Basis of preparation

a) Statement of compliance

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

b) Accounting convention

These financial statements have been prepared under the historical cost convention except for the certain financial instruments carried at fair value.

c) Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

Useful lives, patterns of economic benefits and impairments

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Accumulating compensated absences

The provision for accumulating compensated absences is made on the basis of accumulated leave balance on account of employees.

Taxation

In making the estimates for income tax currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

Provisions for doubtful debts

The Company reviews its receivables against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

Impairment of investment in subsidiary company

In making an estimate of recoverable amount of the Company's investment in subsidiary company, the management considers future cash flows.

d) Standard and amendments to published approved accounting standards that are effective in current year

i) Changes in accounting policies and disclosures arising from standard and amendments to published approved accounting standards that are effective in the current year

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009).The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 01 January 2009). It introduces the "management approach" to segment reporting. IFRS 8 requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company's chief operating decision makers in order to assess each segment's performance and to allocate resources to them. Previously, the Company did not present segment information as IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments. Under the management approach, the Company has determined operating segments on the basis of business activities i.e. Spinning, Weaving, Processing and Home Textile and Power Generation. As the change in accounting policy only results in additional disclosures of segment information, there is no impact on earnings per share.

ii) Other amendment to published approved accounting standard that is effective in the current year

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Company's accounting policy on borrowing cost, as disclosed in Note 2.8, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Company's accounting policy.

e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

f) Standards and amendments to published approved accounting standards that are not yet effective but relevant

Following standards and amendments to the published approved accounting standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2010 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 has superseded the IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7. The management of the Company is in the process of evaluating impacts of the aforesaid standard on the Company's financial statements.

There are other amendments resulting from annual improvements projects initiated by International Accounting Standards Board in April 2009 and May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 24 'Related Party Disclosures' and IAS 36 'Impairment of Assets' that are considered relevant to the Company's financial statements. These amendments are unlikely to have a significant impact on the Company's financial statements and have therefore not been analyzed in detail.

g) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant

There are other accounting standards, amendments to published approved accounting standards and new interpretation that are mandatory for accounting periods beginning on or after 01 July 2010 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

## 2.2 Taxation

### Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited 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.

## 2.3 Employee benefits

The main features of the schemes operated by the Company for its employees are as follows:

### Provident fund

There is an approved contributory provident fund for employees of the Company. Equal monthly contributions are made both by the employees and the Company to the fund in accordance with the fund rules. The Company's contributions to the fund are charged to income currently.

### Accumulating compensated absences

The Company provides for accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences. Under the rules, head office employees and factory staff are entitled to 20 days leave per year and factory workers are entitled to 14 days leave per year respectively. Unutilized leaves can be accumulated upto 10 days in case of head office employees, 40 days in case of factory staff and upto 28 days in case of factory workers. Any further un-utilized leaves will lapse. Any un-utilized leave balance i.e. 40 days and 28 days in case of factory staff and workers respectively, can be encashed by them at any time during their employment. Unutilized leaves can be used at any time by all employees, subject to the Company's approval. Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to income.

## 2.4 Fixed assets

### Property, plant, equipment and depreciation

Property, plant and equipment except freehold land and capital work in progress are stated at cost less accumulated depreciation and any identified impairment loss. Cost in relation to certain property, plant and equipment signifies historical cost, borrowing cost pertaining to erection / construction period of qualifying assets and other directly attributable cost of bringing the asset to working condition. Freehold land and capital work in progress are stated at cost less any identified impairment loss.

Depreciation on all operating fixed assets is charged to income on the reducing balance method so as to write off the cost of the assets over their estimated useful lives at the rates given in Note 13.1. Depreciation on additions is charged from the month in which the assets are available for use upto the month prior to disposal. The assets' residual values and useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant.

Subsequent costs are included in the asset's carrying amount or recognized 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 cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognized.

Intangible asset - Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and that the cost of such asset can also be measured reliably.

Generally, costs associated with developing or maintaining computer software programme are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits accruing for a period exceeding one year, are recognized as intangible asset. Direct costs include the purchase costs of software and related overhead costs. Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortized on a straight line basis over its estimated useful life.

Previously, amortization on intangible asset was charged on reducing balance method. However, during the year, the Company's management carried out a comprehensive review of the pattern of consumption of economic benefits of the intangible asset. Such a change has been accounted for as a change in accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the accounting estimate, the profit after taxation for the year ended 30 June 2010 would have been higher by Rupees 110,398 and carrying value of intangible asset as at that date would have been higher by Rupees 118,708.

## 2.5 Investments

Classification of an investment is made on the basis of intended purpose for holding such investment. Management determines the appropriate classification of its investments at the time of purchase.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for "investment at fair value through profit or loss" which is measured initially at fair value.

The Company assess at the end of each reporting period whether there is any objective evidence that investments are impaired. If any such evidence exists, the Company applies the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' to all investments, except investments in subsidiary company, which is tested for impairment in accordance with the provisions of IAS 36 'Impairment of Assets'.

a) Investment at fair value through profit or loss

Investment classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if these are acquired for the purpose of selling in the short term. Gains or losses on investments held-for-trading are recognized in profit and loss account.

b) Held-to-maturity

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

c) Investment in subsidiary company

Investment in subsidiary company is stated at cost less impairment loss, if any, in accordance with the provisions of IAS 27 'Consolidated and Separate Financial Statements'.

d) Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in statement of other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in statement of other comprehensive income is included in profit and loss account. These are sub-categorized as under:

Quoted

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date.

Unquoted

Fair value of unquoted investments is determined on the basis of appropriate valuation techniques as allowed by IAS 39 'Financial Instruments: Recognition and Measurement'.

## 2.6 Inventories

Inventories, except for stock in transit and waste stock, are stated at lower of cost and net realizable value. Cost is determined as follows:

Stores and spares

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Stock in trade

Cost of raw material represents:

| | |
|---|---|
| - Spinning: | annual average cost |
| - Weaving, dyeing and stitching: | moving average cost |

Cost of work-in-process and finished goods comprise cost of direct material, labor and appropriate manufacturing overheads. Cost of goods purchased for resale is based on FIFO.

Materials in transit are stated at cost comprising invoice values plus other charges paid thereon. Waste stock is valued at net realizable value.

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

## 2.7 Foreign currencies

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currencies during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gains and losses are included in the income currently.

## 2.8 Borrowing cost

Borrowing costs are recognized as expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of cost of that asset.

## 2.9 Revenue recognition

Revenue from sales is recognized on dispatch of goods to customers.

Return on bank deposits is accrued on a time proportionate basis by reference to the principal outstanding and the applicable rate of return.

Revenue on sale of electricity is recognized at the time of transmission.

Dividend income on equity investments is recognized as and when the right to receive dividend is established.

## 2.10 Share capital

Ordinary shares and irredeemable preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 2.11 Financial instruments

Financial instruments carried on the balance sheet include deposits, trade debts, loans and advances, other receivables, accrued interest, cash and bank balances, short term borrowings, long term financing, accrued mark-up and trade and other payables. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

Financial assets are de-recognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the following individual policy statements associated with each item and in the accounting policy of investments.

a) Trade and other receivables

Trade debts and other receivables are carried at original invoice value less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

b) Borrowings

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest rate method.

c) Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

## 2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at book value which approximates their fair value. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash at banks on current, saving and deposit accounts, other short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Previously, short term borrowings availed by the Company were included as part of cash and cash equivalents for the purpose of cash flow statement. Now, the changed accounting policy only requires a change in grouping of short term borrowings from cash and cash equivalents to cash flows from financing activities. This change has no impact on earnings per share.

## 2.13 Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

## 2.14 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as cash flow hedges.

The Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in equity are recognized in profit and loss account in the periods when the hedged item will affect profit or loss.

## 2.15 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount can be made.

## 2.16 Related party transactions and transfer pricing

Transactions and contracts with the related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

## 2.17 Impairment

a) Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non-financial assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

## 2.18 Segment reporting

Segment reporting is based on the operating (business) segments of the Company. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief executive to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those incomes, expenses, assets, liabilities and other balances which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated.

The Company has four reportable business segments. Spinning (Producing different quality of yarn using natural and artificial fibers), Weaving (Producing different quality of greige fabric using yarn), Processing and Home Textile (Processing greige fabric for production of printed and dyed fabric and manufacturing of home textile articles) and Power Generation (Generating and distributing power).

Transaction among the business segments are recorded at arm's length prices using admissible valuation methods. Inter segment sales and purchases are eliminated from the total.

## 2.19 Dividend to ordinary shareholders and other appropriations

Dividend to ordinary shareholders and transfer among reserves are treated as post balance sheet non-adjusting events hence do not qualify for provision in the financial statements as per the requirements of IAS 10 "Events after the Reporting Period". These transfers are therefore recorded in the next year's financial statements.

## 2.20 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legal enforceable right to set off and the Company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

## 3. AUTHORIZED SHARE CAPITAL

| 2010 (Number of shares) | 2009 (Number of shares) | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|
| 175,000,000 | 130,000,000 | Ordinary shares of Rupees 10 each | 1,750,000,000 | 1,300,000,000 |
| 20,000,000 | 45,000,000 | 15% non-voting cumulative convertible preference shares of Rupees 10 each | 200,000,000 | 450,000,000 |
| 195,000,000 | 175,000,000 | | 1,950,000,000 | 1,750,000,000 |

3.1 The company has increased its authorized share capital (ordinary shares) by Rupees 200,000,000 divided into 20 million ordinary shares of Rupees 10 each by way of special resolution of its members in their Extra Ordinary General Meeting dated 20 August 2009.

## 4. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

| 2010 (Number of shares) | 2009 (Number of shares) | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|
| Ordinary Shares | | | | |
| 87,831,745 | 12,000,000 | Ordinary shares of Rupees 10 each fully paid in cash | 878,317,450 | 120,000,000 |
| 69,496,657 | 69,496,657 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | 694,966,570 | 694,966,570 |
| 1,224,265 | 1,224,265 | Ordinary shares of Rupees 10 each issued as fully paid for consideration other than cash to members of Umer Fabrics Limited as per the Scheme of arrangement as approved by the Honourable Lahore High Court, Lahore. | 12,242,650 | 12,242,650 |
| 158,552,667 | 82,720,922 | | 1,585,526,670 | 827,209,220 |
| Preference shares | | | | |
| 6,889,177 | 41,360,461 | 15% non-voting cumulative convertible preference shares of Rupees 10 each fully paid in cash | 68,891,770 | 413,604,610 |
| 165,441,844 | 124,081,383 | | 1,654,418,440 | 1,240,813,830 |

| | 2010 | 2009 |
|---|---|---|
| | (Number of Shares) | |
| **4.1 Ordinary shares of the Company held by related parties** | | |
| Nishat Mills Limited | 22,513,321 | 11,256,661 |
| D.G. Khan Cement Company Limited | 5,010,059 | 7,775,482 |
| | 27,523,380 | 19,032,143 |
| **4.2 Preference shares of the Company held by related parties** | | |
| Nishat Mills Limited | - | 5,628,330 |
| D.G. Khan Cement Company Limited | - | 3,887,741 |
| | - | 9,516,071 |

### 4.3 Movement during the year

| 2010 | 2009 | | 2010 | 2009 |
|---|---|---|---|---|
| (Number of shares) | | | Rupees | Rupees |
| Ordinary shares | | | | |
| 82,720,922 | 75,200,838 | At 01 July | 827,209,220 | 752,008,380 |
| - | 7,520,084 | Ordinary shares of Rupees 10 Issued as fully paid bonus shares | - | 75,200,840 |
| 41,360,461 | - | Ordinary shares of Rupees 10 Issued as fully paid right shares | 413,604,610 | - |
| 34,471,284 | - | Preference shares converted into ordinary shares of Rupees 10 each at par | 344,712,840 | - |
| 158,552,667 | 82,720,922 | | 1,585,526,670 | 827,209,220 |
| Preference shares | | | | |
| 41,360,461 | - | At 01 July | 413,604,610 | - |
| - | 41,360,461 | 15% non-voting cumulative convertible preference shares of Rupees 10 each fully paid in cash | - | 413,604,610 |
| (34,471,284) | - | Preference shares converted into ordinary shares of Rupees 10 each at par | (344,712,840) | - |
| 6,889,177 | 41,360,461 | | 68,891,770 | 413,604,610 |

4.4 The Company, during the financial year ended 30 June 2009, had offered to the shareholders of the Company 41,360,461 preference shares of Rupees 10 each at par value. This preference shares right issue was made in the ratio of 50 preference shares (non-voting cumulative convertible) for every 100 ordinary shares held by the Company's shareholders as on 10 February 2009. These shares are listed on Lahore and Karachi Stock Exchanges of Pakistan. The salient terms of this issue are as follows:

4.4.1 The preference shares are non-voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation. No cash dividend on ordinary shares will be payable untill all the dividends on preference shares have been paid.

4.4.2 The preference shareholders are not entitled to bonus or right shares in the event the Company increases its share capital by the issue of further ordinary shares or otherwise, except on preference shares which have been converted into ordinary shares.

4.4.3 The preference shareholders will have the option to serve the conversion notice after the end of the three months from the date of issue of preference shares and upto three years from the date of issue. At the expiry of three years from the date of issue, all outstanding preference shares will be converted into ordinary shares at the conversion price. Preference shareholders will have the option to serve a notice to convert the preference shares along with the accumulated dividend into the ordinary shares of the Company within the conversion period by providing a two months written notice to the Company. The Company will have one month after the two months conversion notice to issue ordinary shares to the preference shareholders at the conversion price. The preference shares along with the accumulated dividend will be convertible into ordinary shares at a price Rupees 10 per ordinary share. No put or call option is available.

4.4.4 Preferred dividend will be paid on an annual basis at the end of each accounting period subsequent to 30 June 2009 or proportionately for the period prior to 30 June 2009 from the date of issue and after the approval of the dividend payment in the Annual General Meeting. The preferred dividend amount will be determined after applying the relevant dividend rate to the outstanding preference shares. The preferred dividend will be paid at the rate of 15%.

| | 2010<br>Rupees | 2009<br>Rupees |
|---|---|---|
| **5. RESERVES** | | |
| Composition of reserves is as follows: | | |
| Capital reserve | | |
| Hedging reserve (Note 5.1) | - | 2,882,753 |
| Revenue reserves | | |
| General reserve | 1,629,221,278 | 1,629,221,278 |
| Unappropriated profit | 1,148,870,928 | 229,553,070 |
| | 2,778,092,206 | 1,858,774,348 |
| | 2,778,092,206 | 1,861,657,101 |

5.1 This represent the unrealized gain on remeasurement of derivative quanto (interest rate) swap at fair value and is not available for distribution.

| | 2010<br>Rupees | 2009<br>Rupees |
|---|---|---|
| **6. LONG TERM FINANCING** | | |
| From banking companies - secured | | |
| Long term loans (Note 6.1) | 3,685,305,316 | 4,536,161,180 |
| Long term musharika (Note 6.2) | 587,500,000 | 250,000,000 |
| | 4,272,805,316 | 4,786,161,180 |
| Less: Current portion shown under current liabilities (Note 11) | 1,542,866,668 | 1,604,255,864 |
| | 2,729,938,648 | 3,181,905,316 |

## 6.1 Long term loans

| Lender | 2010 Rupees | 2009 Rupees | Rate of mark up per annum | Number of installments | Mark up repricing | Mark up payable |
|---|---|---|---|---|---|---|
| Standard Chartered Bank (Pakistan) Limited | - | 50,000,000 | 6-month KIBOR +0.5% | Eight equal half yearly installments commenced on 25 August 2006 and ended 25 February 2010 | Half Yearly | Half Yearly |
| Standard Chartered Bank (Pakistan) Limited | 500,000,000 | - | 6-month KIBOR +2.5% | Five equal half yearly installments commencing on 24 December 2010 and ending on 24 December 2012 | Half Yearly | Half Yearly |
| The Royal Bank of Scotland Limited | - | 300,000,000 | 6-month KIBOR +1.25% | Bullet Payment on 30 June 2009 | Half Yearly | Half Yearly |
| United Bank Limited-1 | - | 71,428,645 | 6-month KIBOR +0.50% | Seven equal half yearly installments commenced on 28 September 2006 and ended 28 September 2009 | Half Yearly | Quarterly |
| United Bank Limited-2 | 187,500,000 | 250,000,000 | SBP rate for LTF-EOP+ 3% | Eight equal half yearly installments commenced on 28 February 2007 and ending on 31 July 2011 | - | Quarterly |
| United Bank Limited-3 | 80,000,000 | 120,000,000 | 6-month KIBOR +1.05% | Ten equal half yearly installments commenced on 27 December 2007 and ending on 27 June 2012 | Half Yearly | Half Yearly |
| United Bank Limited-4 | 250,000,000 | 350,000,000 | 6-month KIBOR +0.95% | Ten equal half yearly installments commenced on 24 June 2008 and ending on 24 December 2012 | Half Yearly | Half Yearly |
| United Bank Limited-5 | 437,500,000 | 500,000,000 | 6-month KIBOR +1.75% | Eight equal half yearly installments commenced on 31 March 2010 and ending on 30 September 2013 | Half Yearly | Quarterly |
| United Bank Limited-6 | 35,000,000 | 250,000,000 | 6-month KIBOR +2.40% | Six equal half yearly installments commencing on 31 December 2010 and ending on 30 June 2013 | Half Yearly | Quarterly |
| United Bank Limited-7 | 28,600,000 | - | SBP rate for LTFF-EOP+2.5% | Eight equal half yearly installments commencing on 10 July 2011 and ending on 10 January 2015 | - | Quarterly |
| United Bank Limited-8 | 38,400,000 | - | SBP rate for LTFF-EOP+2.5% | Eight equal half yearly installments commencing on 08 June 2011 and ending on 08 December 2014 | - | Quarterly |
| United Bank Limited-9 | 8,800,000 | - | SBP rate for LTFF-EOP+2.5% | Eight equal half yearly installments commencing on 28 July 2011 and ending on 28 January 2015 | - | Quarterly |
| United Bank Limited-10 | 88,600,000 | - | SBP rate for LTFF-EOP+2.5% | Eight equal half yearly installments commencing on 18 July 2011 and ending on 18 January 2015 | - | Quarterly |
| United Bank Limited-11 | 26,500,000 | - | SBP rate for LTFF-EOP+2.5% | Eight equal half yearly installments commencing on 26 July 2011 and ending on 26 January 2015 | - | Quarterly |
| Habib Bank Limited-1 | 27,350,000 | 58,600,000 | SBP rate for LTFF-EOP+2% | Six equal half yearly installments commenced on 30 March 2007 and ending on 30 September 2010 | - | Quarterly |
| Habib Bank Limited-2 | 62,500,000 | 93,750,000 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 25 December 2006 and ending on 25 June 2011 | - | Quarterly |
| Habib Bank Limited-3 | 27,467,388 | 36,623,184 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 24 May 2007 and ending on 24 November 2011 | - | Quarterly |
| Habib Bank Limited-4 | 30,476,816 | 38,096,020 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 03 August 2007 and ending on 03 February 2012 | - | Quarterly |
| Habib Bank Limited-5 | 231,111,111 | 260,000,000 | 6-month KIBOR +2.50% | Nine equal half yearly installments commenced on 01 April 2010 and ending on 01 April 2014 | Half Yearly | Quarterly |
| Habib Bank Limited-6 | 213,333,333 | 240,000,000 | 6-month KIBOR +2.50% | Nine equal half yearly installments commenced on 25 June 2010 and ending on 25 June 2014 | Half Yearly | Quarterly |
| Citibank N.A | 74,666,668 | 149,333,334 | SBP rate for LTF-EOP+2% | Six equal half yearly installments commenced on 31 December 2007 and ending on 27 June 2011 | - | Half Yearly |
| Allied Bank Limited-1 | - | 83,329,997 | SBP rate for LTF-EOP+2% | Twelve equal quarterly installments commenced on 28 September 2006 and ended 28 June 2010 | - | Quarterly |
| Allied Bank Limited-2 | - | 100,000,000 | SBP rate for LTF-EOP+2% | Ten equal quarterly installments commenced on 15 March 2007 and ended15 June 2010 | - | Quarterly |
| Allied Bank Limited-3 | 200,000,000 | 300,000,000 | 6-month KIBOR +1.05% | Six equal half yearly installments commenced on 23 December 2009 and ending on 23 June 2012 | Half Yearly | Half Yearly |
| Allied Bank Limited-4 | 250,000,000 | 350,000,000 | 6-month KIBOR +1.05% | Ten equal half yearly installments commenced on 28 March 2008 and ending on 28 September 2012 | Half Yearly | Half Yearly |
| Allied Bank Limited-5 | 350,000,000 | 490,000,000 | 6-month KIBOR +0.85% | Ten equal half yearly installments commenced on 15 June 2008 and ending on 15 December 2012 | Half Yearly | Half Yearly |
| Pak Kuwait Investment Company (Private) Limited | 200,000,000 | - | 6-month KIBOR +2.50% | Eighteen equal quarterly installments commencing on 14 January 2011 and ending on 14 April 2015 | Half Yearly | Quarterly |
| Atlas Bank Limited | 150,000,000 | 195,000,000 | 6-month KIBOR + 1.05% | Twenty equal quarterly installments commenced on 29 December 2007 and ending on 29 September 2012 | Half Yearly | Quarterly |
| National Bank of Pakistan | 187,500,000 | 250,000,000 | 6-month KIBOR + 2.50% | Eight equal half yearly installments commenced on 30 September 2009 and ending on 31 March 2013 | Half Yearly | Half Yearly |
| | 3,685,305,316 | 4,536,161,180 | | | | |

### 6.2 Long term musharika

| Lender | 2010 Rupees | 2009 Rupees | Rate of mark up per annum | Number of installments | Mark up repricing | Mark up payable |
|---|---|---|---|---|---|---|
| Dawood Islamic Bank Limited | 187,500,000 | 250,000,000 | 6-month KIBOR + 1.25% | Sixteen equal quarterly installments commenced on 30 September 2009 and ending on 30 June 2013 | Half Yearly | Quarterly |
| Dubai Islamic Bank (Pakistan) Limited | 400,000,000 | - | 6-month KIBOR + 1.80% | Ten equal half yearly installments commencing on 01 October 2010 and ending on 01 April 2015 | Half Yearly | Quarterly |
| | 587,500,000 | 250,000,000 | | | | |

6.3 Long term Loans are secured by first joint pari passu hypothecation and equitable mortgage on all present and future fixed assets of the Company to the extent of Rupees 7,345 million (2009: Rupees 8,033 million). However, Pak Kuwait Investment Company (Private) Limited has ranking charge on all present and future fixed assets of the Company to the extent of Rupees 266.666 million (2009: Rupees Nil) million out of the total charge.

6.4 The long term musharika from Dawood Islamic Bank Limited is secured by first joint pari passu hypothecation and equitable mortgage on all present and future fixed assets of the Company to the extent of Rupees 250 million (2009: Rupees 334 million). The long term musharika from Dubai Islamic Bank Pakistan Limited is secured by ranking charge on all present and future fixed assets of the Company to the extent of Rupees 533.333 million (2009: Rupees Nil)

### 6.5 Derivative quanto (interest rate) swap

The Company entered into a derivative quanto (interest rate) swap of notional amount of Rupees 500 million for its local currency loans to hedge the possible adverse movement in interest rates. Under the terms of the agreement, the Company paid JPY London Interbank Offered Rate (LIBOR) plus bank spread @ 10.15% semi annually to the arranging bank on the local currency loan and receives Karachi Interbank Offered Rate (KIBOR). There was no transfer of liability in this arrangement, only nature of interest payment changed. As this arrangement was effective and meet the criteria for cash flow hedge, this arrangement qualified for hedge accounting as per IAS 39 'Financial Instruments: Recognition and Measurement'. The derivative quanto (interest rate) swap matured during the year.

## 7. DEFERRED TAX LIABILITY

This represented deferred tax liability on gain arising during the year ended 30 June 2009 on quanto interest rate swap (Note 6.5) which was reversed during the current year on maturity of derivative. Provision for deferred tax on other temporary differences was not considered necessary as the Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **8. TRADE AND OTHER PAYABLES** | | |
| Creditors (Note 8.1) | 292,627,151 | 208,463,332 |
| Accrued liabilities | 171,275,258 | 148,572,231 |
| Advances from customers | 62,115,680 | 26,477,001 |
| Securities from contractors - interest free, repayable on completion of contracts | 2,222,637 | 1,617,842 |
| Retention money | 6,863,292 | 6,046,272 |
| Income tax deducted at source | 791,718 | 3,376,930 |
| Unpaid and unclaimed dividend | 13,495,721 | 13,551,654 |
| Preference dividend payable | 10,337,905 | 5,269,209 |
| Workers' profit participation fund (Note 8.2) | 57,112,696 | 9,066,344 |
| Workers' welfare fund | 21,681,803 | 9,511,304 |
| Others | 23,797,960 | 22,571,120 |
| | 662,321,821 | 454,523,239 |

8.1 It include Rupees 3.694 million (2009: Rupees 1.196 million) due to related parties.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **8.2 Workers' profit participation fund** | | |
| Balance as on 01 July | 9,066,344 | 4,036,732 |
| Interest for the year (Note 30) | 1,051,075 | 481,311 |
| Add: Provision for the year (Note 28) | 57,112,696 | 9,066,344 |
| | 67,230,115 | 13,584,387 |
| Less : Payments during the year | 10,117,419 | 4,518,043 |
| | 57,112,696 | 9,066,344 |

8.2.1 The Company retains workers' profit participation fund for its business operations till the date of allocation to workers. Interest is paid at prescribed rate under the Companies Profit (Workers' Participation) Act, 1968 on funds utilized by the Company till the date of allocation to workers.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **9. ACCRUED MARK-UP** | | |
| Long term financing | 127,861,231 | 87,632,838 |
| Short term borrowings | 88,582,051 | 83,891,068 |
| | 216,443,282 | 171,523,906 |
| **10. SHORT TERM BORROWINGS** | | |
| From banking companies-secured | | |
| Short term running finances (Notes 10.1 and 10.2) | 1,081,105,841 | 1,212,392,470 |
| Export finances-Preshipment / SBP refinance (Notes 10.1 and 10.3) | 2,324,688,364 | 1,008,185,571 |
| Other short term finances (Notes 10.1 and 10.4) | 1,262,003,467 | 1,280,000,000 |
| | 4,667,797,672 | 3,500,578,041 |

10.1 These finances are obtained from banking companies under mark-up arrangements and are secured by hypothecation of all present and future current assets of the Company and lien on export bills to the extent of Rupees 10.259 million (2009: Rupees 10.263 million). These form part of total credit facility of Rupees 5,743 million (2009: Rupees 8,455 million).

10.2 The rates of mark-up range from 1.57% to 17% (2009: 3.01% to 17%) per annum on the balance outstanding.

10.3 The rates of mark-up range from 1.26% to 16% (2009: 3.33% to 15.13% ) per annum on the balance outstanding.

10.4 The rates of mark-up range from 12.87% to 15.22% (2009: 14.20% to 15.22%) per annum on the balance outstanding.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **11. CURRENT PORTION OF NON-CURRENT LIABILITIES** | | |
| Long term loans | 1,400,366,668 | 1,541,755,864 |
| Long term musharika | 142,500,000 | 62,500,000 |
| | 1,542,866,668 | 1,604,255,864 |

## 12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 Guarantees of Rupees 199.678 million (2009: Rupees 187.219 million) have been issued by the banks of the Company to Sui Northern Gas Pipelines Limited against gas connections.

12.2 The Company has given following guarantees on behalf of Nishat Chunian Power Limited - subsidiary company:

- Performance guarantee of USD 1 million (Pak Rupees 85.60 million) [2009: USD 1 million (Pak Rupees 81.100 million)] in favour of Private Power and Infrastructure Board (Government of Pakistan) to secure performance of Nishat Chunian Power Limited under Implementation Agreement and Power Purchase Agreement.

- The Company has issued irrevocable standby letters of credit of Rupees 642.406 million (2009: Rupees 882.876 million) for equity injection and Rupees Nil (2009: Rupees 147.120 million) for positive cost overrun, in accordance with Project Funds Agreement, in favour of security trustee of syndicated lenders of Nishat Chunian Power Limited.

12.3 The Company has preferred appeal against the Government of Punjab in the Honourable Lahore High Court against imposition of Electricity Duty on internal generation. The Company has fully provided and paid its liability in respect of generation for the current year.

12.4 The Collectorate of Customs (Export) has issued show cause notices with the intention to reject the duty draw back claims aggregating to Rupees 9.482 million (2009: 9.482 million) on blended grey fabrics exported under Duty and Tax Remission Rules for Export (DTRE) scheme. The department is of the view that the Company has not submitted Appendix-1 as per Rule 297-A of the above referred scheme. The Company considers that since it has taken benefit of remission of sales tax only, it is entitled to full duty draw back and has filed appeal before Appellate Tribunal Inland Revenue (ATIR) Karachi Bench which is still pending. The Company also applied to Federal Board of Revenue (FBR) to constitute Alternate Dispute Resolution Committee (ADRC) in terms of section 195C of the Custom Act, 1969 to settle the dispute. ADRC vide its order dated 16 April 2008 has recommended the case in favour of the Company and forwarded the case to FBR. The matter is still pending at FBR end.

12.5 Orders were issued by the Officer Inland Revenue under Section 221 of the Income Tax Ordinance, 2001 for assessment years 1998-99 to 2000-01 under which the assessing officer has levied tax under Section 80D on local sales of the Company irrespective of the tax paid under Section 80CC and thus creating a demand of Rupees 1.470 million, Rupees 1.436 million and Rupees 2.250 million respectively for said years. An appeal against said orders was filed before the Commissioner Inland Revenue (Appeals) who decided the case in favour of the Company. The department filed appeals before Appellate Tribunal Inland Revenue (ATIR) who has decided the case in Company's favour subsequent to the reporting date. The appeal effect orders are pending.

12.6 Order was issued by the Assistant Commissioner Inland Revenue (ACIR) under section 122(1) of the Income Tax Ordinance, 2001 for tax year 2008 as a result of audit of the Company under section 177 of the Income Tax Ordinance, 2001 whereby a demand of Rupees 42.833 million has been raised against the Company on various grounds. The Company has filed an appeal before Commissioner Inland Revenue (Appeals) and consider that its stance is based on reasonable grounds and appeal is likely to succeed. Hence, no provision has been recognized in these financial statements based on advice of the legal counsel.

12.7 While framing assessment orders of Umer Fabrics Limited (merged entity) for the assessment years 1998-99, 2000-01, 2001-02 and 2002-03 the Income Tax Officer disallowed certain expenses on pro-rata basis and disagreed on certain additions. The Company being aggrieved filed appeals with the Commissioner Inland Revenue (Appeals) which was decided in Company's favour against which the department preferred an appeal to Appellate Tribunal Inland Revenue (ATIR). ATIR decided the case in favour of the Company. The department has filed an appeal before Honourable Lahore High Court. No provision against these disallowances and addition has been made in the financial statements as the management is confident that the matter would be settled in the Company's favour. If the decision of ATIR is not upheld, the provision for taxation amounting to Rupees 17.157 million (2009: Rupees 17.157 million) would be required.

12.8 As a result of withholding tax audit for the tax year 2006, the Deputy Commissioner Inland Revenue (DCIR) has raised a demand of Rupees 23.077 million under sections 161 and 205 of the Income Tax Ordinance, 2001. The Company has filed an appeal before Commissioner Inland Revenue (Appeals) against the order of DCIR and expects a favourable outcome of the appeal based on advice of the legal counsel.

12.9 The Deputy Collector (Refund – Gold) by order dated 16 May 2007 rejected the input tax claim of the Company, for the month of June 2005, amounting to Rupees 1.604 million incurred in zero rated local supplies of textile and articles thereof on the grounds that the input tax claim is in contravention of SRO 992(I)/2005 which states that no registered person engaged in the export of specified goods (including textile and articles thereof) shall, either through zero-rating or otherwise, be entitled to deduct or reclaim input tax paid in respect of stocks of such goods acquired up to 05 June 2005, if not used for the purpose of exports made up to the 31 December 2005. The appeal of the Company before Appellate Tribunal Inland Revenue (ATIR) was successful and input tax claim of the Company is expected to be processed after necessary verification in this regard. Pending the outcome of verification no provision for inadmissible input tax has been recognized in these financial statements.

12.10 Post dated cheques have been issued to custom authorities in respect of duties amounting to Rupees 36.933 million (2009: Rupees 24.689 million) on imported material availed on the basis of consumption and export plans. In the event the documents of exports are not provided on due dates, cheque issued as security shall be encashable.

Commitments

i) Contracts for capital expenditure amounted to Rupees 377.382 million (2009: Rupees 19.499 million).

ii) Letters of credit other than for capital expenditure amounted to Rupees 68.954 million (2009: Rupees 291.489 million).

iii) Quanto (interest rate) swap of Rupees Nil (outstanding notional amount) (2009: Rupees 500.000 million) as on 30 June

iv) Outstanding foreign currency forward contracts of Rupees 3,031.700 million (2009: Rupees 1,131.288 million).

v) outstanding balance under agreement for subordinated loan to subsidiary company amounting to Rupees 413.361 million (2009: Rupees Nil).

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13. FIXED ASSETS** | | |
| Property, plant and equipment | | |
| Operating assets (Note 13.1) | 5,593,337,106 | 5,905,713,184 |
| Capital work in progress (Note 13.2) | 371,396,520 | 20,711,188 |
| | 5,964,733,626 | 5,926,424,372 |
| Intangible asset: | | |
| Computer software (Note 13.1) | 527,600 | 923,300 |
| Intangible asset under development - ERP computer software | 4,991,943 | - |
| | 5,970,253,169 | 5,927,347,672 |

13.1 Reconciliation of carrying amounts at the beginning and at end of the year is as follows:

| Description | Freehold land | Building on freehold land | Plant and machinery | Electric installations | Factory equipment | Furniture, fixture and equipment | Office equipment | Motor vehicles | Total operating assets | Computer software |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | ------Rupees------ | | | | | |
| At 01 July 2008 | | | | | | | | | | |
| Cost | 188,776,332 | 1,524,176,771 | 7,386,827,035 | 158,877,208 | 63,191,385 | 39,520,987 | 126,442,791 | 107,644,860 | 9,595,457,369 | - |
| Accumulated depreciation | - | (595,280,013) | (2,714,572,585) | (79,747,805) | (36,180,235) | (15,761,847) | (36,221,076) | (50,307,414) | (3,528,070,975) | - |
| Net book value | 188,776,332 | 928,896,758 | 4,672,254,450 | 79,129,403 | 27,011,150 | 23,759,140 | 90,221,715 | 57,337,446 | 6,067,386,394 | - |
| Year ended 30 June 2009 | | | | | | | | | | |
| Opening net book value | 188,776,332 | 928,896,758 | 4,672,254,450 | 79,129,403 | 27,011,150 | 23,759,140 | 90,221,715 | 57,337,446 | 6,067,386,394 | - |
| Additions | - | 50,229,330 | 306,220,996 | 9,694,793 | 78,100 | 1,110,918 | 3,279,498 | 15,581,041 | 386,194,676 | 1,319,000 |
| Disposals: | | | | | | | | | | |
| Cost | - | - | (13,491,708) | - | - | - | - | (16,111,871) | (29,603,579) | - |
| Accumulated depreciation | - | - | 9,153,885 | - | - | - | - | 9,741,999 | 18,895,884 | - |
| | - | - | (4,337,823) | - | - | - | - | (6,369,872) | (10,707,695) | - |
| Depreciation / amortization charge | - | (48,011,127) | (456,605,549) | (8,000,889) | (2,703,218) | (2,446,805) | (9,233,922) | (10,158,681) | (537,160,191) | (395,700) |
| Closing net book value | 188,776,332 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,423,253 | 84,267,291 | 56,389,934 | 5,905,713,184 | 923,300 |
| At 01 July 2009 | | | | | | | | | | |
| Cost | 188,776,332 | 1,574,406,101 | 7,679,556,323 | 168,572,001 | 63,269,485 | 40,631,905 | 129,722,289 | 107,114,030 | 9,952,048,466 | 1,319,000 |
| Accumulated depreciation / amortization | - | (643,291,140) | (3,162,024,249) | (87,748,694) | (38,883,453) | (18,208,652) | (45,454,998) | (50,724,096) | (4,046,335,282) | (395,700) |
| Net book value | 188,776,332 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,423,253 | 84,267,291 | 56,389,934 | 5,905,713,184 | 923,300 |
| Year ended 30 June 2010 | | | | | | | | | | |
| Opening net book value | 188,776,332 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,423,253 | 84,267,291 | 56,389,934 | 5,905,713,184 | 923,300 |
| Additions | - | 43,196,901 | 145,798,692 | 198,900 | - | 27,700 | 7,556,137 | 13,665,757 | 210,444,087 | - |
| Disposals: | | | | | | | | | | |
| Cost | - | - | (9,857,222) | - | - | - | (24,000) | (7,374,265) | (17,255,487) | - |
| Accumulated depreciation | - | - | 7,101,851 | - | - | - | 400 | 4,800,514 | 11,902,765 | - |
| | - | - | (2,755,371) | - | - | - | (23,600) | (2,573,751) | (5,352,722) | - |
| Depreciation / amortization charge | - | (46,941,396) | (438,354,619) | (8,096,421) | (2,438,603) | (2,243,658) | (8,765,348) | (10,627,398) | (517,467,443) | (395,700) |
| Closing net book value | 188,776,332 | 927,370,466 | 4,222,220,776 | 72,925,786 | 21,947,429 | 20,207,295 | 83,034,480 | 56,854,542 | 5,593,337,106 | 527,600 |
| At 30 June 2010 | | | | | | | | | | |
| Cost | 188,776,332 | 1,617,603,002 | 7,815,497,793 | 168,770,901 | 63,269,485 | 40,659,605 | 137,254,426 | 113,405,522 | 10,145,237,066 | 1,319,000 |
| Accumulated depreciation / amortization | - | (690,232,536) | (3,593,277,017) | (95,845,115) | (41,322,056) | (20,452,310) | (54,219,946) | (56,550,980) | (4,551,899,960) | (791,400) |
| Net book value | 188,776,332 | 927,370,466 | 4,222,220,776 | 72,925,786 | 21,947,429 | 20,207,295 | 83,034,480 | 56,854,542 | 5,593,337,106 | 527,600 |
| Annual rate of depreciation / amortization (%) | - | 5 | 10 | 10 | 10 | 10 | 10 | 20 | | 30 |

13.1.1 Detail of operating assets disposed off during the year is as follows:

| Description | Cost | Accumulated depreciation | Net Book Value | Sale Proceeds | (Gain)/ Loss | Mode of Disposal | Particulars of Purchaser |
|---|---|---|---|---|---|---|---|
| | ............. Rupees ............. | | | | | | |
| Plant & Machinery | | | | | | | |
| Compressor Model ZR-315 | 9,857,222 | 7,101,851 | 2,755,371 | 2,700,000 | 55,371 | Negotiation | Azgard Nine Limited |
| Vehicles | | | | | | | |
| Honda Civic Saloon LRD-467 | 1,266,447 | 1,003,307 | 263,140 | 785,000 | (521,860) | As per Company policy | Faisal Shahid Qureshi (Employee), Township, Lahore |
| Toyota Corolla LZD-8177 | 1,222,500 | 866,942 | 355,558 | 800,000 | (444,442) | As per Company policy | Muhammad Mumtaz (Employee), Mianwali |
| Suzuki Cultus LZW-8667 | 730,640 | 408,477 | 322,163 | 368,399 | (46,236) | As per Company policy | Muhammad Shahbaz Khan (Employee), Askari 10, Lahore |
| Suzuki Cultus LZV-2524 | 572,338 | 342,897 | 229,441 | 234,695 | (5,254) | As per Company policy | Jamshaid Akhtar (Employee), Tehsil Chunian, Kasur |
| Honda Civic Saloon LEA-2986 | 1,359,720 | 785,420 | 574,300 | 1,350,000 | (775,700) | Negotiation | Hassan Sharif (Ex-employee), Defence Housing Society, Lahore |
| Toyota Corolla 2.0D LRX-5550 | 1,215,730 | 888,284 | 327,446 | 815,000 | (487,554) | Negotiation | Umer Zameer, Lawrence Road, Lahore |
| Suzuki Cultus LEA-06-1248 | 608,120 | 352,914 | 255,206 | 600,000 | (344,794) | Negotiation | Farhat Mehmood, Qila Gujar Singh, Lahore |
| Suzuki Mehran | 398,770 | 152,273 | 246,497 | 250,000 | (3,503) | Insurance claim | Adamjee Insurance Company Limited |
| Office Equipment | | | | | | | |
| Blackberry curve 8900 | 24,000 | 400 | 23,600 | 22,000 | 1,600 | Negotiation | Hassan Sharif (Ex-employee), Defence Housing Society, Lahore |
| | 17,255,487 | 11,902,765 | 5,352,722 | 7,925,094 | (2,572,372) | | |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| 13.1.2 The depreciation charge for the year has been allocated as follows: | | |
| Cost of sales (Note 25) | 507,012,938 | 527,628,997 |
| Administrative expenses (Note 27) | 10,454,505 | 9,531,194 |
| | 517,467,443 | 537,160,191 |

13.1.3 Amortization on intangible asset amounting to Rupees 395,700 (2009: Rupees 395,700) has been allocated to administrative expenses.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13.2 CAPITAL WORK-IN-PROGRESS** | | |
| Plant and machinery (Note 13.2.1) | 210,460,088 | 791,648 |
| Civil works on freehold land | 37,164,500 | 18,162,458 |
| Mobilization advance | 2,188,766 | 303,015 |
| Unallocated expenses | 125,558 | 1,173,597 |
| Letters of credit | 120,928,608 | - |
| Advance against purchase of assets | 529,000 | 280,470 |
| | 371,396,520 | 20,711,188 |

13.2.1 It includes borrowing cost capitalized of Rupees 7.705 million using the capitalization rate of 9.70% per annum.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **14. INVESTMENT IN SUBSIDIARY COMPANY - AT COST** | | |
| Nishat Chunian Power Limited - quoted (Note 14.1) 187,346,939 (2009: 143,789,188) fully paid ordinary shares of Rupees 10 each. Equity held 57.81% (2009: 80%) | 1,873,469,390 | 1,437,891,880 |

14.1 The Company has to maintain at least 51% holding in the share capital of Nishat Chunian Power Limited (NCPL) during the period of first six years from the date of commercial operations of NCPL. Moreover, the Company has pledged its 187,346,939 shares to lenders of NCPL for the purpose of securing finance.

14.2 Based on value in use calculations as at 30 June 2010, there was no impairment loss on investment in subsidiary company (tested for impairment under IAS 36 'Impairment of Assets').

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **15. LONG TERM LOANS** | | |
| Considered good: | | |
| Executives (Notes 15.1 and 15.2) | 1,541,913 | 976,542 |
| Other employees (Note 15.2) | 2,318,526 | 3,207,167 |
| Subsidiary company (Note 15.4) | 386,638,960 | - |
| | 390,499,399 | 4,183,709 |
| Less: Current portion shown under current assets (Note 19) | | |
| Executives | 183,692 | 384,708 |
| Other employees | 203,929 | 261,026 |
| | 387,621 | 645,734 |
| | 390,111,778 | 3,537,975 |
| **15.1 Reconciliation of carrying amount of loans to executives:** | | |
| Opening balance as at 01 July | 976,542 | 6,292,655 |
| Disbursements | 1,274,496 | 1,678,203 |
| Less: Repayments | 709,125 | 6,994,316 |
| Closing balance as at 30 June | 1,541,913 | 976,542 |

15.1.1 Maximum aggregate balance due from executives at the end of any month during the year was Rupees 2.177 million (2009: Rupees 7.109 million).

15.2 These represent car and personal loans to executives and employees, payable in 60 and 15 monthly installments respectively. Interest on long term loans ranged from 9.00 % to 13.50% per annum (2009: 9.00% to 13.50% per annum) while some loans are interest free. Car loans are secured against registration of cars in the name of the Company, whereas personal loan is secured against balance to the credit of employee in the provident fund trust.

15.3 The fair value adjustment in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' arising in respect of staff loans is not considered material and hence not recognized.

15.4 This represents subordinated long term loan given to Nishat Chunian Power Limited - subsidiary company. This loan is unsecured and carries markup at the rate of 3 months KIBOR plus 2% payable on quarterly basis. The loan is subordinate to the prior payment in full by the subsidiary company of the secured obligations to its finance parties.The total amount of subordinated loan facility is Rupees 800 million. The bullet loan repayment date is five years after the last principal disbursement date. Interest on subordinated loan ranged from 14.33% to 14.34% per annum.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **16. STORES, SPARE PARTS AND LOOSE TOOLS** | | |
| Stores | 254,655,832 | 205,247,070 |
| Spare parts | 147,853,046 | 126,616,302 |
| Loose tools | 8,214,058 | 2,055,725 |
| | 410,722,936 | 333,919,087 |
| **17. STOCK IN TRADE** | | |
| Raw materials (Note 17.1) | 1,981,999,233 | 1,494,506,123 |
| Work in process | 466,561,040 | 304,749,505 |
| Finished goods - own produced (Note 17.2 and 17.3) | 681,133,741 | 361,764,128 |
| Finished goods - trading stock | 75,612 | - |
| Waste | 36,816,119 | 22,083,974 |
| | 3,166,585,745 | 2,183,103,730 |

17.1 Raw materials include stock in transit of Rupees 14.023 million (2009: Rupees 2.551 million).

17.2 Finished goods include stock in transit of Rupees 8.600 million (2009: Rupees Nil).

17.3 Finished goods include inventory of Rupees 4.560 million (2009: Rupees 2.940 million) valued at net realizable value.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **18. TRADE DEBTS** | | |
| Considered good: | | |
| Secured (against letters of credit) | 491,368,376 | 904,445,228 |
| Unsecured (Note 18.3) | 1,027,356,132 | 612,283,759 |
| | 1,518,724,508 | 1,516,728,987 |
| Considered doubtful: | | |
| Others - unsecured | - | 1,908,098 |
| Less: Provision for doubtful debts | | |
| As at 01 July | - | - |
| Bad debts written off against provision for the year | - | 1,908,098 |
| As at 30 June | - | 1,908,098 |
| | - | - |

18.1 As at 30 June 2010, trade debts of Rupees 37.086 million (2009 : Rupees 43.420 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Upto 1 month | 12,101,149 | 1,666,889 |
| 1 to 6 months | 1,230,916 | 7,217,067 |
| More than 6 months | 23,753,981 | 34,535,666 |
| | 37,086,046 | 43,419,622 |

18.2 As at 30 June 2010, trade debts of Rupees Nil (2009 : 1.908 million) were impaired and written off. The aging of trade debts written off during the year ended 30 June 2009 was more than three years.

18.3 Trade debts include Rupees Nil (2009: Rupees 0.051 million) due from Nishat Mills Limited - related party.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **19. LOANS AND ADVANCES** | | |
| Considered good: | | |
| Employees: | | |
| -Executives | 1,927,153 | 2,121,791 |
| -Other employees | 12,018,646 | 10,016,474 |
| | 13,945,799 | 12,138,265 |
| Current portion of long term loans (Note 15) | 387,621 | 645,734 |
| Advances to suppliers | 97,153,412 | 64,608,368 |
| Advances to contractors | 1,632,378 | 7,061,933 |
| Letters of credit | 120,946,177 | 287,763,719 |
| | 234,065,387 | 372,218,019 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **20. OTHER RECEIVABLES** | | |
| Sales tax recoverable | 199,581,413 | 77,212,256 |
| Advance income tax - net | 39,323,015 | 33,277,165 |
| Export rebate and claims | 52,288,029 | 11,401,176 |
| Research and development support receivable | - | 2,791,494 |
| Fair value gain on forward contracts | 36,750,839 | 5,459,532 |
| Fair value of interest rate swap | - | 15,982,394 |
| Subsidy receivable against financing of import of spinning machinery | 1,772,954 | 5,943,260 |
| Receivable from provident fund trust | 2,217,433 | 750,942 |
| Others (Note 20.1) | 9,876,085 | 58,227,439 |
| | 341,809,768 | 211,045,658 |

20.1 It includes interest free receivable of Rupees 2.485 million (2009: Rupees Nil) from Nishat Chunian Power Limited - subsidiary company in the ordinary course of the business.

## 21. ACCRUED INTERST

This represents interest receivable on long term loan given to Nishat Chunain Power Limited - subsidiary company.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **22. CASH AND BANK BALANCES** | | |
| Cash with banks: | | |
| On PLS saving accounts (Note 22.1) Including US$ 12,107 (2009: US$ 3,840) | 21,034,332 | 312,144 |
| On current accounts (Note 22.2) Including US$ 89,782 (2009: US$ 73,063) | 67,994,008 | 26,952,338 |
| | 89,028,340 | 27,264,482 |
| Cash in hand | 1,746,181 | 2,181,383 |
| | 90,774,521 | 29,445,865 |

22.1 Rate of profit on bank deposits ranged from 5% to 11% (2009: 5%) per annum. Included therein is a balance of Rupees 20 million (2009: Rupees Nil) under lien with a bank against bank guarantee of the same amount issued by the bank to the Director, Excise and Taxation.

22.2 Included in cash at bank are Rupees 45.571 million (2009: Rupees 9.460 million) deposited with MCB Bank Limited - associated company.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **23. NON-CURRENT ASSET HELD FOR SALE** | | |
| Nishat Chunian Power Limited - quoted 24,999,995 (2009: Nil) fully paid ordinary shares of Rupees 10 each. | 249,999,950 | - |
| Less: Loss on write-down of the investment to fair value less costs to sell | 1,500,000 | - |
| | 248,499,950 | - |

23.1 This represents investment in 24,999,995 ordinary shares of Nishat Chunian Power Limited - subsidiary company which is non-strategic and is over and above 51% stake in the subsidiary company. The Company expects to complete the sale transaction within next twelve months and for this purpose an active programme to locate a buyer and complete the plan to sell the investment has been initiated.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **24. SALES** | | |
| Export | 9,944,828,677 | 6,288,427,221 |
| Local (Note 24.1 and 24.2) | 3,300,659,812 | 3,664,102,751 |
| Export rebate | 29,941,970 | 12,015,499 |
| Duty draw back | 68,109,104 | - |
| | 13,343,539,563 | 9,964,545,471 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **24.1 Local sales** | | |
| Sales | 3,063,608,553 | 3,430,689,394 |
| Processing Income | 175,922,448 | 193,199,342 |
| Sale of electricity (Note 24.1.1) | 61,128,811 | 40,214,015 |
| | 3,300,659,812 | 3,664,102,751 |

24.1.1 Sale of electricity is exclusive of sales tax amounting to Rupees 9.781 million (2009: Rupees 6.032 million).

24.2 This includes sale of Rupees 674.477 million (2009: Rupees Nil) made to direct exporters against special purchase orders (SPOs). Further, local sales includes waste sales of Rupees 298.532 million (2009: Rupees 270.537 million).

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **25. COST OF SALES** | | |
| Raw material consumed (Note 25.1) | 7,587,100,102 | 5,508,354,923 |
| Packing materials consumed | 348,818,362 | 264,564,347 |
| Stores, spare parts and loose tools consumed | 744,447,209 | 611,599,466 |
| Salaries, wages and other benefits (Note 25.2) | 758,442,203 | 634,677,628 |
| Fuel and power | 1,139,520,168 | 824,488,263 |
| Insurance | 23,378,632 | 27,202,583 |
| Postage and telephone | 368,045 | 416,526 |
| Traveling and conveyance | 8,754,219 | 7,116,335 |
| Vehicles' running and maintenance | 12,382,460 | 10,653,164 |
| Entertainment | 2,335,462 | 1,622,616 |
| Depreciation on operating assets (Note 13.1.2) | 507,012,938 | 527,628,997 |
| Repair and maintenance | 15,750,825 | 22,222,365 |
| Other factory overheads | 65,633,702 | 61,272,551 |
| | 11,213,944,327 | 8,501,819,764 |
| Work-in-process | | |
| Opening stock | 304,749,505 | 195,443,205 |
| Closing stock | (466,561,040) | (304,749,505) |
| | (161,811,535) | (109,306,300) |
| Cost of goods manufactured | 11,052,132,792 | 8,392,513,464 |
| Finished goods and waste - opening stocks | | |
| Finished goods | 361,764,128 | 421,026,976 |
| Waste | 22,083,974 | 25,100,317 |
| | 383,848,102 | 446,127,293 |
| | 11,435,980,894 | 8,838,640,757 |
| Finished goods and waste - closing stocks | | |
| Finished goods | (681,133,741) | (361,764,128) |
| Waste | (36,816,119) | (22,083,974) |
| | (717,949,860) | (383,848,102) |
| Cost of sales - own manufactured goods | 10,718,031,034 | 8,454,792,655 |
| Opening stock of purchased finished goods | - | 6,412,705 |
| Finished goods purchased | 13,736,487 | 12,156,882 |
| Closing stock of purchased finished goods | (75,612) | - |
| Cost of sales - purchased finished goods | 13,660,875 | 18,569,587 |
| | 10,731,691,909 | 8,473,362,242 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **25.1 Raw material consumed** | | |
| Opening stock | 1,494,506,123 | 1,799,479,746 |
| Add: Purchased during the year | 8,074,593,212 | 5,203,381,300 |
| | 9,569,099,335 | 7,002,861,046 |
| Less: Closing stock | 1,981,999,233 | 1,494,506,123 |
| | 7,587,100,102 | 5,508,354,923 |

25.2 Salaries, wages and other benefits include Rupees 5.421 million (2009: Rupees 7.503 million) and Rupees 17.258 million (2009: Rupees 15.635 million) in respect of accumulating compensated absences and provident fund contribution by the Company respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **26. DISTRIBUTION COST** | | |
| Salaries and other benefits (Note 26.1) | 26,494,976 | 23,722,407 |
| Ocean freight | 90,249,601 | 77,626,924 |
| Freight and octroi | 59,301,945 | 38,348,896 |
| Forwarding and other expenses | 20,235,480 | 15,177,380 |
| Export marketing expenses | 107,765,662 | 44,172,137 |
| Commission to selling agents | 134,313,049 | 92,751,273 |
| | 438,360,713 | 291,799,017 |

26.1 Salaries and other benefits include Rupees 0.882 million (2009: Rupees 0.479 million) and Rupees 1.336 million (2009: Rupees 1.193 million) in respect of accumulating compensated absences and provident fund contribution by the Company respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **27. ADMINISTRATIVE EXPENSES** | | |
| Salaries and other benefits (Note 27.1) | 46,166,036 | 48,901,035 |
| Printing and stationery | 5,471,299 | 1,949,161 |
| Vehicles' running and maintenance | 4,261,518 | 4,400,749 |
| Traveling and conveyance | 16,834,894 | 13,349,741 |
| Postage, telephone and telegraph | 5,049,821 | 4,519,281 |
| Fee and subscription | 2,748,901 | 1,849,922 |
| Legal and professional | 2,176,672 | 4,336,240 |
| Electricity and sui gas | 2,275,790 | 2,901,965 |
| Insurance | 2,466,804 | 2,459,196 |
| Repair and maintenance | 4,862,801 | 1,896,987 |
| Entertainment | 1,602,942 | 1,590,452 |
| Auditors' remuneration (Note 27.2) | 1,316,750 | 1,041,450 |
| Advertisement | 689,142 | 670,510 |
| Depreciation on operating assets (Note 13.1.2) | 10,454,505 | 9,531,194 |
| Amortization on intangible asset (Note 13.1.3) | 395,700 | 395,700 |
| Miscellaneous | 4,490,185 | 5,862,924 |
| | 111,713,760 | 105,656,507 |

27.1 Salaries and other benefits include Rupees 2.093 million (2009: Rupees 2.188 million) and Rupees 1.335 million (2009: Rupees 1.321 million) in respect of accumulating compensated absences and provident fund contribution by the Company respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **27.2 Auditors' remuneration** | | |
| Audit fee | 1,000,000 | 750,000 |
| Half yearly review | 157,300 | 143,000 |
| Certification fees | 50,000 | 50,000 |
| Reimbursable expenses | 109,450 | 98,450 |
| | 1,316,750 | 1,041,450 |

## 28. OTHER OPERATING EXPENSES

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Workers' profit participation fund (Note 8.2) | 57,112,696 | 9,066,344 |
| Workers' welfare fund | 18,833,365 | 3,435,585 |
| Loss on write-down of the investment to fair value less costs to sell (Note 23) | 1,500,00 | - |
| Bad debts written off | - | 1,908,098 |
| Donations (Note 28.1) | 4,387,440 | 2,057,300 |
| | 81,833,501 | 16,467,327 |

### 28.1 Name of donee in which a director or his spouse has an interest:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Mian Muhammad Yahya Trust, 31-Q, Gulberg II, Lahore Mr. Muhammad Saleem, Chairman and Mr. Shahzad Saleem, Chief Executive are trustees. | 4,387,440 | 2,057,300 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **29. OTHER OPERATING INCOME** | | |
| Income from financial assets | | |
| Return on bank deposits | 223,038 | 25,499 |
| Net exchange gain | 145,340,294 | 152,679,402 |
| Interest income on loan to subsidiary company | 6,794,397 | - |
| Income from non-financial assets | | |
| Profit on sale of property, plant and equipment | 2,572,372 | 519,840 |
| Others | | |
| Sale of scrap | 30,527,554 | 17,978,809 |
| Miscellaneous | 913,551 | 1,416,148 |
| | 186,371,206 | 172,619,698 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **30. FINANCE COST** | | |
| Mark-up on: | | |
| - long term financing - net (Note 30.1) | 522,643,407 | 520,877,094 |
| - long term musharika | 31,378,751 | 40,457,397 |
| - short term running finances | 301,299,296 | 214,975,933 |
| - export finances - Preshipment / SBP refinances | 181,706,890 | 135,504,251 |
| - short term finances | 477,061 | 114,376,009 |
| Interest on workers' profit participation fund (Note 8.2) | 1,051,075 | 481,311 |
| Bank and other charges | 62,497,617 | 54,864,438 |
| | 1,101,054,097 | 1,081,536,433 |

30.1 This includes subsidy @ 3% amounting to Rupees 14.536 million (2009: Rupees 25.097 million) received / receivable from Government of Pakistan on mark up rates for financing of import of spinning machinery vide SRO No.973(I)/2007 dated 06 September 2007.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **31. TAXATION** | | |
| Current - (Note 31.1) | 137,517,209 | 65,000,000 |
| Prior year adjustment | (3,734,295) | - |
| | 133,782,914 | 65,000,000 |

31.1 The company falls under the ambit of presumptive tax regime under section 169 of the Income Tax Ordinance, 2001. Provision for income tax is made accordingly.

31.2 Provision for deferred tax is not required as the Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001 and no temporary differences are expected to arise in the foreseeable future.

31.3 Reconciliation of tax expense and product of accounting profit multiplied by the applicable tax rate is not required in view of presumptive taxation.

| | 2010 | 2009 |
|---|---|---|
| **32. EARNINGS PER SHARE** | | |
| Basic | | |
| Profit after taxation (Rupees) | 931,473,875 | 103,343,643 |
| Preference dividend (Rupees) | 10,333,766 | 5,269,209 |
| Profit after taxation attributable to ordinary shareholders (Rupees) | 921,140,109 | 98,074,434 |
| Weighted average number of ordinary shares outstanding during the year | 116,758,568 | 82,720,922 |
| Earnings per share - basic (Rupees) | 7.89 | 1.19 |
| Diluted | | |
| Profit after taxation (Rupees) | 931,473,875 | 103,343,643 |
| Weighted average number of ordinary shares outstanding during the year | 116,758,568 | 82,720,922 |
| Impact of dilutive potential preference shares | 35,300,088 | 41,360,461 |
| | 152,058,656 | 124,081,383 |
| Earnings per share - diluted (Rupees) | 6.13 | 0.83 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **33. CASH GENERATED FROM OPERATIONS** | | |
| Profit before taxation | 1,065,256,789 | 168,343,643 |
| Adjustment for non cash charges and other items: | | |
| Depreciation on operating assets | 517,467,443 | 537,160,191 |
| Amortization on intangible asset | 395,700 | 395,700 |
| Gain on sale of property, plant and equipment | (2,572,372) | (519,841) |
| Finance cost | 1,101,054,097 | 1,081,536,433 |
| Loss on write-down of the investment of fair value less costs to sell | 1,500,000 | - |
| Interest income on loan to subsidiary company | (6,794,397) | - |
| Working capital changes (Note 33.1) | (847,617,959) | (202,106,083) |
| | 1,828,689,301 | 1,584,810,043 |
| **33.1 Working capital changes** | | |
| (Increase) / decrease in current assets: | | |
| Stores, spare parts and loose tools | (76,803,839) | (26,822,443) |
| Stock in trade | (983,482,015) | 264,359,219 |
| Trade debts | (1,995,521) | (205,390,833) |
| Loans and advances | 138,152,632 | (258,406,235) |
| Short term prepayments | 293,020 | 449,097 |
| Other receivables | (129,153,267) | (45,482,960) |
| | (1,052,988,990) | (271,294,155) |
| Increase in current liabilities: | | |
| Trade and other payables | 205,371,031 | 69,188,072 |
| | (847,617,959) | (202,106,083) |

## 34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year for remuneration including certain benefits to the Chief Executive, Directors and Executives of the Company is as follows:

| | Director | | Executives | |
|---|---|---|---|---|
| | 2010 Rupees | 2009 Rupees | 2010 Rupees | 2009 Rupees |
| Managerial remuneration | 1,600,080 | 1,600,080 | 25,093,254 | 21,705,004 |
| Contribution to provident fund | - | - | 2,090,268 | 1,808,027 |
| House rent | 639,840 | 639,912 | 10,034,291 | 8,681,728 |
| Utilities | 160,008 | 160,008 | 2,510,455 | 2,170,318 |
| Others | 445,440 | 572,724 | 2,222,869 | 563,175 |
| | 2,845,368 | 2,972,724 | 41,951,137 | 34,928,252 |
| Number of persons | 1 | 1 | 24 | 23 |

34.1 The Company also provides to Chief Executive, Directors and certain Executives with free use of Company maintained cars and residential telephones.

## 35. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise subsidiary company, associated companies, other related companies, key management personnel and post employment benefit plan. The Company in the normal course of business carried out transactions with various related parties. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Subsidiary Company | | |
| Investment made | 685,577,460 | 1,226,159,080 |
| Bridge financing made during the year | - | 210,853,032 |
| Subordinated loan made during the year | 386,638,960 | - |
| Interest income on subordinated loan | 6,794,397 | - |
| Interest income on bridge financing | - | 354,859 |
| Common facilities cost | 1,800,000 | - |
| Share of ERP system implementation cost | 2,385,000 | - |
| Other related party | | |
| Purchase of goods | 186,823,098 | 107,532,958 |
| Sales of goods | 173,931,069 | 128,241,936 |
| Preference dividend paid | 1,212,320 | - |
| Post employment benefit plan | | |
| Expense charged in respect of retirement benefit plan | 19,928,857 | 18,148,606 |

## 36. SEGMENT INFORMATION

| | Spinning | | Weaving | | Processing and Home Textile | | Captive Power | | 'Elimination of inter-segment transactions | | Total - Company | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | ----------Rupees---------- | | | | | | | | | | | |
| Sales | 9,163,604,665 | 6,950,569,044 | 4,226,875,781 | 3,564,777,768 | 4,640,699,225 | 2,227,146,718 | 1,020,213,370 | 900,624,434 | (5,707,853,478) | (3,678,572,493) | 13,343,539,563 | 9,964,545,471 |
| Cost of sales | (7,296,062,409) | (6,318,228,878) | (3,893,145,807) | (3,067,607,510) | (4,237,455,961) | (1,880,260,555) | (1,012,881,210) | (885,837,792) | 5,707,853,478 | 3,678,572,493 | (10,731,691,909) | (8,473,362,242) |
| Gross profit | 1,867,542,256 | 632,340,166 | 333,729,974 | 497,170,258 | 403,243,264 | 346,886,163 | 7,332,160 | 14,786,642 | - | - | 2,611,847,654 | 1,491,183,229 |
| Distribution cost | (210,665,963) | (133,008,492) | (55,979,317) | (93,619,714) | (171,715,433) | (65,170,811) | - | - | - | - | (438,360,713) | (291,799,017) |
| Administrative expenses | (61,457,814) | (57,643,137) | (23,681,643) | (21,940,958) | (21,580,399) | (20,302,144) | (4,993,904) | (5,770,268) | - | - | (111,713,760) | (105,656,507) |
| | (272,123,777) | (190,651,629) | (79,660,960) | (115,560,672) | (193,295,832) | (85,472,955) | (4,993,904) | (5,770,268) | - | - | (550,074,473) | (397,455,524) |
| Profit before taxation and unallocated income and expenses | 1,595,418,479 | 441,688,537 | 254,069,014 | 381,609,586 | 209,947,432 | 261,413,208 | 2,338,256 | 9,016,374 | - | - | 2,061,773,181 | 1,093,727,705 |
| Unallocated income and expenses | | | | | | | | | | | | |
| Other operating expenses | | | | | | | | | | | (81,833,501) | (16,467,327) |
| Other operating income | | | | | | | | | | | 186,371,206 | 172,619,698 |
| Finance cost | | | | | | | | | | | (1,101,054,097) | (1,081,536,433) |
| Provision for taxation | | | | | | | | | | | (133,782,914) | (65,000,000) |
| Profit after taxation | | | | | | | | | | | 931,473,875 | 103,343,643 |

### 36.1 Reconciliation of reportable segment assets and liabilities

| | Spinning | | Weaving | | Processing and Home Textile | | Captive Power | | Total - Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | ----------Rupees---------- | | | | | | | | | |
| Total assets for reportable segments | 5,199,831,298 | 4,823,457,315 | 1,560,731,297 | 1,699,595,124 | 2,572,181,675 | 2,051,683,686 | 729,421,115 | 796,545,044 | 10,062,165,385 | 9,371,281,169 |
| Unallocated assets: | | | | | | | | | | |
| Long term investments | | | | | | | | | 1,873,469,390 | 1,437,891,880 |
| Other receivables | | | | | | | | | 341,809,768 | 211,045,658 |
| Cash and bank balances | | | | | | | | | 90,774,521 | 29,445,865 |
| Other corporate assets | | | | | | | | | 1,883,659,673 | 967,144,977 |
| Total assets as per balance sheet | | | | | | | | | 14,251,878,737 | 12,016,809,549 |
| Total liabilities for reportable segments | 33,850,750 | 19,960,485 | 84,685,052 | 49,091,987 | 27,467,267 | 7,089,903 | - | - | 146,003,069 | 76,142,375 |
| Unallocated liabilities: | | | | | | | | | | |
| Deferred tax | | | | | | | | | - | 1,552,252 |
| Other corporate liabilities | | | | | | | | | 9,673,365,022 | 8,836,643,991 |
| Total liabilities as per balance sheet | | | | | | | | | 9,819,368,091 | 8,914,338,618 |

### 36.2 Geographical information

The Company's revenue from external customers by geographical location is detailed below:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Europe | 1,766,969,077 | 809,083,720 |
| Asia, Africa and Australia | 4,817,572,829 | 3,076,253,708 |
| United States of America and Canada | 3,458,337,845 | 2,415,105,292 |
| Pakistan | 3,300,659,812 | 3,664,102,751 |
| | 13,343,539,563 | 9,964,545,471 |

### 36.3 All non-current assets of the Company as at reporting dates are located and operating in Pakistan.

### 36.4 Revenue from major customers

The Company's revenue is earned from a large mix of customers. However, revenue from transactions with a single external customer of the Processing and Home Textile business segment of the Company amounted to Rupees 2,469.177 million (2009: Rupees 1,165.860 million).

## 37. PLANT CAPACITY AND ACTUAL PRODUCTION

| | 2010 | 2009 |
|---|---|---|
| **Spinning** | | |
| Number of spindles installed | 147,926 | 148,357 |
| Number of spindles worked | 141,949 | 139,008 |
| Number of shifts per day | 3 | 3 |
| Capacity after conversion into 20/1 count (Kgs.) | 50,948,536 | 49,507,139 |
| Actual production of yarn after conversion into 20/1 count (Kgs.) | 50,225,855 | 48,775,505 |

Under utilization of available capacity was due to normal maintenance and time lost in shifting of coarser counts to finer counts and vice versa.

| | 2010 | 2009 |
|---|---|---|
| **Weaving** | | |
| Number of looms installed | 293 | 293 |
| Number of looms worked | 293 | 293 |
| Number of shifts per day | 3 | 3 |
| Capacity after conversion into 50 picks - square yards | 215,512,868 | 182,694,493 |
| Actual production after conversion into 50 picks - square yards | 214,588,988 | 177,425,527 |

Capacity has been revised during the year in view of higher actual production during the year as compared to last year's capacity figure. This was mainly due to increase in machine speed due to lower average count and due to utilization of machines in two to three panels.

Under utilization of available capacity was due to the following reasons:

- change of articles required
- higher count and cover factor
- due to normal maintenance

| | 2010 | 2009 |
|---|---|---|
| **Power Plant** | | |
| Number of engines installed | 10 | 10 |
| Number of engines worked | 10 | 10 |
| Number of shifts per day | 3 | 3 |
| Generation capacity (KWh) | 317,698,920 | 317,698,920 |
| Actual generation (KWh) | 172,357,094 | 179,605,840 |

Under utilization of available capacity was due to normal maintenance.

| | 2010 | 2009 |
|---|---|---|
| **Dyeing** | | |
| Number of thermosol dyeing machines | 1 | 1 |
| Number of stenters machines | 2 | 2 |
| Number of shifts per day | 3 | 3 |
| Capacity in meters | 26,400,000 | 26,400,000 |
| Actual processing of fabrics - meters | 25,522,831 | 18,526,893 |

Under utilization of available capacity was due to normal maintenance.

| | 2010 | 2009 |
|---|---|---|
| Stitching | | |
| Number of stitching machines | 240 | 240 |
| Number of shifts per day | 1 | 1 |
| Capacity in meters | 16,800,000 | 16,800,000 |
| Actual stitching of fabrics - meters | 10,406,322 | 5,045,555 |

Under utilization of available capacity was due to low demand.

## 38. FINANCIAL RISK MANAGEMENT

### 38.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors. The Company's finance department evaluates and hedges financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non derivative financial instruments and investment of excess liquidity.

#### (a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable / payable from / to the foreign entities. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk was as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash at banks - USD | 101,889 | 76,903 |
| Trade debts - USD | 13,935,801 | 15,425,686 |
| Trade and other payable - USD | 607,259 | 744,149 |
| Short term borrowings as FE 25 import / export loans - USD | 1,476,190 | 9,133,236 |
| Accrued mark-up on FE 25 import / export loans - USD | 6,460 | 73,222 |
| Net exposure - USD | 11,947,781 | 5,551,982 |

The following significant exchange rates were applied during the year:

| | 2010 | 2009 |
|---|---|---|
| Rupees per US Dollar | | |
| Average rate | 84.27 | 78.23 |
| Reporting date rate | 85.60 | 81.10 |

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit after taxation for the year would have been Rupees 47.557 million (2009: Rupees 20.937 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to equity and commodity price risk.

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's only significant long-term interest-bearing asset is loan to subsidiary company. The Company's interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

| | 2010<br>Rupees | 2009<br>Rupees |
|---|---|---|
| Fixed rate instruments | | |
| Financial liabilities | | |
| Long term financing | 600,860,872 | 809,732,535 |
| Short term borrowings | 3,238,389,484 | 2,022,532,124 |
| Floating rate instruments | | |
| Financial assets | | |
| Loan to subsidiary company | 386,638,960 | - |
| Bank balances - saving accounts | 21,034,332 | 312,144 |
| Financial liabilities | | |
| Long term financing | 3,671,944,444 | 3,976,428,645 |
| Short term borrowings | 1,429,408,188 | 1,478,045,917 |

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 or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 43.651 million (2009: Rupees 50.274 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Loans and advances | 404,445,198 | 16,321,974 |
| Deposits | 1,095,442 | 1,082,942 |
| Trade debts | 1,518,724,508 | 1,516,728,987 |
| Other receivables | 46,626,924 | 80,153,092 |
| Accrued interest | 5,571,439 | - |
| Bank balances | 89,028,340 | 27,264,482 |
| | 2,065,491,851 | 1,641,551,477 |

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate:

| | Rating | | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|---|
| | Short term | Long term | Agency | | |
| **Banks** | | | | | |
| Askari Bank Limited | A1+ | AA | PACRA | 20,059,067 | 644,845 |
| The Royal Bank of Scotland Limited | A1+ | AA | PACRA | 571,630 | 10,488,038 |
| Atlas Bank Limited | A2 | A- | PACRA | 14,631 | 4,800 |
| Bank Alfalah Limited | A1+ | AA | PACRA | 616,399 | 215,212 |
| The Bank of Punjab | A1+ | AA - | PACRA | 1,106 | 25,136 |
| Bank Islami (Pakistan) Limited | A1 | A | PACRA | 1,283,826 | 5,500 |
| Citibank N.A. | P-1 | A1 | Moody's | 224,203 | 2,159 |
| Dubai Islamic Bank (Pakistan) Limited | A-1 | A | JCR-VIS | 553,521 | 78,596 |
| Dawood Islamic Bank Limited | A-3 | BBB+ | JCR-VIS | 3 | 4,346 |
| Faysal Bank Limited | A-1+ | AA | JCR-VIS | 4,035,548 | 45,437 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | 417,496 | 96,233 |
| Habib Metropolitan Bank Limited | A1+ | AA+ | PACRA | 171 | 20 |
| HSBC Bank Middle East Limited | F1+ | AA- | Fitch | 7,288,887 | 479,023 |
| Meezan Bank Limited | A-1 | AA- | JCR-VIS | 23,430 | 460,349 |
| MCB Bank Limited | A1+ | AA+ | PACRA | 45,571,236 | 9,460,653 |
| NIB Bank Limited | A1+ | AA - | PACRA | 7,831,769 | 546,299 |
| Standard Chartered Bank (Pakistan) Limited | A1+ | AAA | PACRA | 463,318 | 461,804 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | 72,099 | 4,246,032 |
| | | | | 89,028,340 | 27,264,482 |

The Company's exposure to credit risk and impairment losses related to trade debts is disclosed in Note 18.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Company had Rupees 1,078 million available borrowing limits from financial institutions and Rupees 90.775 million cash and bank balances. Inspite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2010:

| | Carrying Amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ------------------------- Rupees ------------------------- | | | | | |
| Non-derivative financial liabilities: | | | | | | |
| Long term financing | 4,272,805,316 | 5,329,283,672 | 1,059,862,228 | 1,005,248,957 | 1,701,114,646 | 1,563,057,841 |
| Short term borrowings | 4,667,797,672 | 4,913,534,410 | 3,775,390,038 | 1,138,144,372 | - | - |
| Trade and other payables | 520,619,924 | 520,619,924 | 520,619,924 | - | - | - |
| Accrued markup | 216,443,282 | 216,443,282 | 216,443,282 | - | - | - |
| | 9,677,666,194 | 10,979,881,288 | 5,572,315,472 | 2,143,393,329 | 1,701,114,646 | 1,563,057,841 |

Contractual maturities of financial liabilities as at 30 June 2009:

| | Carrying Amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ------------------------- Rupees ------------------------- | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Long term financing | 4,786,161,180 | 6,035,529,618 | 1,063,404,793 | 1,093,105,525 | 1,691,468,942 | 2,187,550,358 |
| Short term borrowings | 3,500,578,041 | 4,803,508,544 | 3,610,594,486 | 1,192,914,058 | - | - |
| Trade and other payables | 406,091,660 | 406,091,660 | 406,091,660 | - | - | - |
| Accrued markup | 171,523,906 | 171,523,906 | 171,523,906 | - | - | - |
| | 8,864,354,787 | 11,416,653,728 | 5,251,614,845 | 2,286,019,583 | 1,691,468,942 | 2,187,550,358 |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 6 and note 10 to these financial statements.

## 38.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

## 38.3 Financial instruments by categories

| | Loans and receivables |
|---|---|
| | Rupees |
| As at 30 June 2010 | |
| Assets as per balance sheet | |
| Loans and advances | 404,445,198 |
| Deposits | 1,095,442 |
| Trade debts | 1,518,724,508 |
| Other receivables | 46,626,924 |
| Accrued interest | 5,571,439 |
| Cash & bank balances | 90,774,521 |
| | 2,067,238,032 |

| | Financial liabilities at amortized cost |
|---|---|
| | Rupees |
| Liabilities as per balance sheet | |
| Long term financing | 4,272,805,316 |
| Accrued mark-up | 216,443,282 |
| Short term borrowings | 4,667,797,672 |
| Trade and other payables | 520,619,924 |
| | 9,677,666,194 |

| As at 30 June 2009 | Loans and receivables |
|---|---|
| | Rupees |
| Assets as per balance sheet | |
| Loans and advances | 16,321,974 |
| Deposits | 1,082,942 |
| Trade debts | 1,516,728,987 |
| Other receivables | 80,153,092 |
| Cash and bank balances | 29,445,865 |
| | 1,643,732,860 |

| | Financial liabilities at amortized cost |
|---|---|
| | Rupees |
| Liabilities as per balance sheet | |
| Long term financing | 4,786,161,180 |
| Accrued mark-up | 171,523,906 |
| Short term borrowings | 3,500,578,041 |
| Trade and other payables | 406,091,660 |
| | 8,864,354,787 |

## 39. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term financing and short term borrowings obtained by the Company as referred to in note 6 and 10 respectively. Total capital employed includes 'total equity' as shown in the balance sheet plus 'borrowings'. The Company's Strategy, which was unchanged from last year, was to maintain a gearing ratio of 75% debt and 25% equity.

| | | 2010 | 2009 |
|---|---|---|---|
| Borrowings | Rupees | 8,940,602,988 | 8,286,739,221 |
| Total equity | Rupees | 4,432,510,646 | 3,102,470,931 |
| Total capital employed | Rupees | 13,373,113,634 | 11,389,210,152 |
| Gearing ratio | Percentage | 66.86 | 72.76 |

## 40. UNUTILIZED CREDIT FACILITIES

The Company has total credit facilities amounting to Rupees 5,743 million (2009: Rupees 8,455 million) out of which Rupees 1,078 million (2009: Rupees 5,059 million) remained unutilized at the end of the year.

## 41. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company has proposed a cash dividend for the year ended 30 June 2010 of Rupees 1.50 per ordinary share (2009: Rupees Nil per ordinary share) at their meeting held on 08 October 2010. Moreover, 15% (2009 : 15%) preference dividend has been proposed by the Board of Directors for payment after approvel in forthcoming Annual General Meeting, in accordance with the approved terms and condations of preference share issue.

## 42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 08 October 2010 by the Board of Directors of the Company.

## 43. CORRESPONDING FIGURES

Corresponding figures have been rearranged / regrouped wherever necessary for the purpose of comparison. However, no significant rearrangements / regroupings have been made.

## 44. GENERAL

Figures have been rounded off to nearest of Rupee.

CHIEF EXECUTIVE

DIRECTOR

# Categories of Shareholders
## as on 30 June 2010

| Categories of Shareholders | Number of Shareholders | Total Shares Held | Percentage |
|---|---|---|---|
| Directors/Chief Executive Officer and their spouse and minor Children | | | |
| Mr. Muhamamd Saleem - Chairman | 1 | 6,531,227 | 4.12 |
| Mr. Shahzad Saleem - Chief Executive | 1 | 13,705,750 | 8.64 |
| Mrs. Farhat Saleem - Director | 1 | 8,865,610 | 5.59 |
| Spouse | | | |
| Mrs. Ayesha Shahzad W/o Mr. Shahzad Saleem | 1 | 164,222 | 0.10 |
| TOTAL: - | 4 | 29,266,809 | 18.46 |
| Executives | N/A | - | 0.00 |
| Associated Companies, Undertakings and related parties | - | - | 0.00 |
| Public Sectors Companies & Corporations | - | - | 0.00 |
| NIT and IDBP (ICP UNIT) | 6 | 4,552,802 | 2.87 |
| Banks, Development Financial Institutions & Non Banking Financial Institutions | 24 | 7,217,336 | 4.55 |
| Insurance Companies | 7 | 2,817,423 | 1.78 |
| Modarabas & Mutual Funds | 15 | 3,603,036 | 2.27 |
| *Shareholding 10% or more | 1 | 22,513,321 | 14.20 |
| Joint Stock Companies | 126 | 20,110,693 | 12.68 |
| Others | 25 | 135,057 | 0.09 |
| General Public | 7,050 | 68,336,190 | 43.10 |
| TOTAL: - | 7,258 | 158,552,667 | 100.00 |

* Shareholders having 10% or above shares

Shareholding Detail of 10% or more

| Name of Shareholder | Shares held | % |
|---|---|---|
| Nishat Mills Limited | 22,513,321 | 14.20 |
| TOTAL :- | 22,513,321 | 14.20 |

INFORMATION UNDER CLAUSE XIX(j) OF THE CODE OF CORPORATE GOVERNANCE
All trade in the Company's shares, carried out by its Directors , CEO ,CFO, Company Secretary and their spouses and minor children during the year July 01, 2009 to June 30, 2010:

| | | |
|---|---|---|
| Mr. Muhamamd Saleem - Chairman | 2,904,046 | Nil |
| Mr. Shahzad Saleem - Chief Executive | 1,200,000 | Nil |
| Mrs. Farhat Saleem - Director | 2,896,500 | Nil |

# Pattern of Shareholding

## as at 30 June 2010

| Number of Shareholders | Shareholding From | Shareholding To | Total Shares Held | % of Capital |
|---|---|---|---|---|
| 2554 | 1 | 100 | 60,794 | 0.04 |
| 1280 | 101 | 500 | 358,324 | 0.23 |
| 1019 | 501 | 1000 | 761,805 | 0.48 |
| 1607 | 1001 | 5000 | 3,995,943 | 2.52 |
| 370 | 5001 | 10000 | 2,724,119 | 1.72 |
| 120 | 10001 | 15000 | 1,492,062 | 0.94 |
| 70 | 15001 | 20000 | 1,238,941 | 0.78 |
| 43 | 20001 | 25000 | 1,016,947 | 0.64 |
| 26 | 25001 | 30000 | 726,454 | 0.46 |
| 14 | 30001 | 35000 | 449,427 | 0.28 |
| 9 | 35001 | 40000 | 339,370 | 0.21 |
| 14 | 40001 | 45000 | 583,977 | 0.37 |
| 16 | 45001 | 50000 | 787,293 | 0.50 |
| 3 | 50001 | 55000 | 159,335 | 0.10 |
| 9 | 55001 | 60000 | 518,025 | 0.33 |
| 10 | 60001 | 65000 | 618,997 | 0.39 |
| 7 | 65001 | 70000 | 469,778 | 0.30 |
| 4 | 70001 | 75000 | 297,618 | 0.19 |
| 6 | 75001 | 80000 | 464,735 | 0.29 |
| 5 | 80001 | 85000 | 415,985 | 0.26 |
| 5 | 85001 | 90000 | 439,240 | 0.28 |
| 3 | 90001 | 95000 | 278,000 | 0.18 |
| 6 | 95001 | 100000 | 600,000 | 0.38 |
| 3 | 105001 | 110000 | 326,919 | 0.21 |
| 1 | 110001 | 115000 | 111,848 | 0.07 |
| 3 | 120001 | 125000 | 366,274 | 0.23 |
| 1 | 125001 | 130000 | 126,324 | 0.08 |
| 1 | 130001 | 135000 | 131,419 | 0.08 |
| 2 | 135001 | 140000 | 279,920 | 0.18 |
| 1 | 140001 | 145000 | 141,900 | 0.09 |
| 1 | 145001 | 150000 | 148,000 | 0.09 |
| 1 | 180001 | 185000 | 180,283 | 0.11 |
| 3 | 195001 | 200000 | 600,000 | 0.38 |
| 1 | 210001 | 215000 | 215,000 | 0.14 |
| 2 | 230001 | 235000 | 466,412 | 0.29 |
| 1 | 245001 | 250000 | 250,000 | 0.16 |
| 1 | 295001 | 300000 | 300,000 | 0.19 |
| 1 | 345001 | 350000 | 350,000 | 0.22 |
| 1 | 435001 | 440000 | 438,380 | 0.28 |
| 1 | 445001 | 450000 | 446,656 | 0.28 |
| 1 | 505001 | 510000 | 505,954 | 0.32 |
| 1 | 545001 | 550000 | 546,771 | 0.34 |
| 1 | 885001 | 890000 | 888,832 | 0.56 |
| 1 | 895001 | 900000 | 900,000 | 0.57 |
| 1 | 950001 | 955000 | 954,363 | 0.60 |
| 1 | 995001 | 1000000 | 1,000,000 | 0.63 |
| 1 | 1120001 | 1125000 | 1,122,318 | 0.71 |
| 1 | 1155001 | 1160000 | 1,156,000 | 0.73 |
| 1 | 1170001 | 1175000 | 1,172,000 | 0.74 |
| 1 | 1505001 | 1510000 | 1,510,000 | 0.95 |
| 1 | 1585001 | 1590000 | 1,587,840 | 1.00 |
| 2 | 1595001 | 1600000 | 3,200,000 | 2.02 |
| 1 | 1720001 | 1725000 | 1,724,372 | 1.09 |
| 1 | 1730001 | 1735000 | 1,734,532 | 1.09 |
| 1 | 1745001 | 1750000 | 1,747,400 | 1.10 |
| 1 | 1770001 | 1775000 | 1,773,490 | 1.12 |
| 1 | 1840001 | 1845000 | 1,840,706 | 1.16 |
| 1 | 1965001 | 1970000 | 1,967,351 | 1.24 |
| 1 | 3355001 | 3360000 | 3,355,757 | 2.12 |
| 1 | 3885001 | 3890000 | 3,887,741 | 2.45 |
| 1 | 4395001 | 4400000 | 4,400,000 | 2.78 |
| 1 | 4430001 | 4435000 | 4,434,389 | 2.80 |
| 1 | 5470001 | 5475000 | 5,470,771 | 3.45 |
| 1 | 5570001 | 5575000 | 5,574,030 | 3.52 |
| 1 | 6025001 | 6030000 | 6,025,273 | 3.80 |
| 1 | 8790001 | 8795000 | 8,791,318 | 5.54 |
| 1 | 9770001 | 9775000 | 9,770,713 | 6.16 |
| 1 | 9995001 | 10000000 | 10,000,000 | 6.31 |
| 1 | 10295001 | 10300000 | 10,300,000 | 6.50 |
| 1 | 12115001 | 12120000 | 12,117,910 | 7.64 |
| 1 | 12670001 | 12675000 | 12,673,724 | 7.99 |
| 1 | 12740001 | 12745000 | 12,742,608 | 8.04 |
| 7,258 | | | 158,552,667 | 100.00 |

# NISHAT (CHUNIAN) LIMITED AND ITS SUBSIDIARY COMPANY

## CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## 30 JUNE 2010

# Directors' Report

The Directors are pleased to present their report together with the consolidated audited results of Nishat (Chunian) Limited and its subsidiary for the year ended 30 June, 2010. The group results comprise of financial statements of Nishat (Chunian) Limited and Nishat Chunian Power Limited.

Nishat Chunian Power Limited, incorporated under the Companies Ordinance, 1984 on 23 February, 2007, is the subsidiary company of Nishat (Chunian) Limited. The Company has been listed on Karachi and Lahore Stock Exchanges since October 2009. The Company has recently commenced commercial operations on July 21, 2010. The commercial operations date committed by Wartsila, the EPC contractor, was March 31, 2010. However, operations started on July 21, 2010 due to a delay in testing and commissioning. The Required Commercial Operations Date committed under the Power Purchase Agreement was June 30, 2010 so the plant faced a delay of 21 days only. The tariff is currently under review by the National Electric Power Regulatory Authority for trueing up. The Operations and Maintenance contract is with Wartsila Pakistan (Private) Limited. The plant is experiencing good capacity utilization. Delay in payments from WAPDA and circular debt continues to be an issue as faced by all other Independent Power Producers. Power shortage also remains to be a serious challenge for the country. In view of the overall situation, the management expects high capacity utilization and looks forward to a profitable operations year ahead. Nishat (Chunian) Limited currently owns and controls 57.81% shares of Nishat Chunian Power Limited. The Directors' Report giving a commentary on the performance of Nishat (Chunian) Limited for the year ended 30 June 2010 has been presented separately.

On behalf of the Board

Shahzad Saleem
Chief Executive

08 October 2010
Lahore

# Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Nishat (Chunian) Limited (the Holding Company) and its Subsidiary Company, Nishat Chunian Power Limited as at 30 June 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Nishat (Chunian) Limited and its Subsidiary Company, Nishat Chunian Power Limited. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Nishat (Chunian) Limited and its Subsidiary Company, Nishat Chunian Power Limited as at 30 June 2010 and the results of their operations for the year then ended.

As stated in note 2.1(d)(i) and note 2.14 to the consolidated financial statements, the Group has changed its accounting policies and disclosures, with which we concur.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of Engagement Partner:
Syed Mustafa Ali

Date: 08 October 2010

Lahore

# Consolidated Balance Sheet as at

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorized share capital | 3 | 1,950,000,000 | 1,750,000,000 |
| Issued, subscribed and paid up share capital | 4 | 1,654,418,440 | 1,240,813,830 |
| Reserves | 5 | 2,758,330,632 | 1,859,810,971 |
| Equity attributable to equity holders of the parent | | 4,412,749,072 | 3,100,624,801 |
| Non-controlling interest | | 1,540,327,620 | 359,011,447 |
| Total equity | | 5,953,076,692 | 3,459,636,248 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term financing | 6 | 17,721,442,341 | 10,296,389,685 |
| Deferred tax liability | 7 | - | 1,552,252 |
| | | 17,721,442,341 | 10,297,941,937 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | 1,532,750,774 | 459,619,896 |
| Accrued mark-up | 9 | 776,990,805 | 412,461,194 |
| Short term borrowings | 10 | 6,492,739,649 | 3,500,578,041 |
| Current portion of non-current liabilities | 11 | 1,953,143,926 | 1,679,207,525 |
| | | 10,755,625,154 | 6,051,866,656 |
| TOTAL LIABILITIES | | 28,477,067,495 | 16,349,808,593 |
| CONTINGENCIES AND COMMITMENTS | 12 | | |
| TOTAL EQUITY AND LIABILITIES | | 34,430,144,187 | 19,809,444,841 |

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

CHIEF EXECUTIVE

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 24,027,092,110 | 15,145,261,812 |
| Long term loans | 14 | 3,633,468 | 3,537,975 |
| Long term security deposits | | 1,200,442 | 1,187,942 |
| | | 24,031,926,020 | 15,149,987,729 |
| CURRENT ASSETS | | | |
| Stores, spare parts and loose tools | 15 | 631,271,907 | 333,919,097 |
| Stock-in-trade | 16 | 3,472,226,000 | 2,183,103,730 |
| Trade debts | 17 | 3,251,175,130 | 1,516,728,987 |
| Loans and advances | 18 | 770,678,338 | 374,538,500 |
| Short term prepayments | | 194,704 | 487,724 |
| Other receivables | 19 | 488,784,940 | 216,500,366 |
| Short term investment | 20 | 131,890,238 | - |
| Cash and bank balances | 21 | 1,651,996,910 | 34,178,708 |
| | | 10,398,218,167 | 4,659,457,112 |
| TOTAL ASSETS | | 34,430,144,187 | 19,809,444,841 |

DIRECTOR

# Consolidated Profit and Loss Account

## for the year ended 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| Sales | 22 | 13,343,539,563 | 9,964,545,471 |
| Cost of sales | 23 | (10,731,691,909) | (8,473,362,242) |
| Gross profit | | 2,611,847,654 | 1,491,183,229 |
| Distribution cost | 24 | (438,360,713) | (291,799,017) |
| Administrative expenses | 25 | (117,509,568) | (107,814,894) |
| Other operating expenses | 26 | (80,333,501) | (16,467,327) |
| | | (636,203,782) | (416,081,238) |
| | | 1,975,643,872 | 1,075,101,991 |
| Other operating income | 27 | 178,918,808 | 173,233,301 |
| Profit from operations | | 2,154,562,680 | 1,248,335,292 |
| Finance cost | 28 | (1,101,054,097) | (1,081,536,433) |
| Profit before taxation | | 1,053,508,583 | 166,798,859 |
| Taxation | 29 | (135,086,275) | (65,000,000) |
| Profit after taxation | | 918,422,308 | 101,798,859 |
| Share of profit attributable to: | | | |
| Equity holders of parent | | 921,695,058 | 102,107,816 |
| Non-controlling interest | | (3,272,750) | (308,957) |
| | | 918,422,308 | 101,798,859 |
| Basic earnings per share | 30 | 7.81 | 1.17 |
| Diluted earnings per share | 30 | 6.06 | 0.82 |

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

CHIEF EXECUTIVE

DIRECTOR

# Consolidated Statement of Comprehensive Income
## for the year ended 30 June 2010

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| PROFIT AFTER TAXATION | 918,422,308 | 101,798,859 |
| OTHER COMPREHENSIVE INCOME | | |
| Gain arising during the year on quanto interest rate swap entered into as part of the cash flow hedge | - | 2,725,201 |
| Reclassification adjustment for gain included in profit or loss | (4,435,005) | (11,547,388) |
| Deferred income tax relating to other comprehensive income | 1,552,252 | 3,087,765 |
| Net loss recognized in other comprehensive income | (2,882,753) | (5,734,422) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 915,539,555 | 96,064,437 |
| TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO: | | |
| EQUITY HOLDERS OF PARENT | 918,812,305 | 96,373,394 |
| NON-CONTROLLING INTEREST | (3,272,750) | (308,957) |
| | 915,539,555 | 96,064,437 |

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

CHIEF EXECUTIVE

DIRECTOR

# Consolidated Cash Flow Statement
## for the year ended 30 June 2010

| | NOTE | 2010 Rupees | 2009 Rupees |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash (used in) / generated from operations | 31 | (246,359,471) | 1,578,568,269 |
| Net increase in long term security deposits | | (12,500) | (292,000) |
| Finance cost paid | | (736,524,486) | (820,806,002) |
| Income tax paid | | (143,808,817) | (79,787,880) |
| Net increase in investment at fair value through profit or loss | | (131,226,152) | - |
| Net (increase) / decrease in long term loans | | (95,493) | 6,168,713 |
| Net cash (used in) / generated from operating activities | | (1,258,026,919) | 683,851,100 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure on property, plant and equipment | | (9,398,767,347) | (8,099,811,628) |
| Capital expenditure on intangible assets | | (7,376,943) | - |
| Proceeds from sale of property, plant and equipment | | 7,925,094 | 11,227,536 |
| Net cash used in investing activities | | (9,398,219,196) | (8,088,584,092) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long term financing | | 9,503,244,921 | 7,678,451,236 |
| Repayment of long term financing | | (1,804,255,864) | (1,295,299,142) |
| Short term borrowings - net | | 2,992,161,608 | 309,861,903 |
| Proceeds from issuance of preference shares | | - | 413,604,610 |
| Proceeds from issuance of right shares | | 413,604,610 | - |
| Increase in non-controlling interest | | 1,190,527,070 | 306,539,780 |
| Share issuance cost | | (15,897,025) | (3,667,721) |
| Dividends paid | | (5,321,003) | (33,656) |
| Net cash from financing activities | | 12,274,064,317 | 7,409,457,010 |
| Net increase in cash and cash equivalents | | 1,617,818,202 | 4,724,018 |
| Cash and cash equivalents at the beginning of the year | | 34,178,708 | 29,454,690 |
| Cash and cash equivalents at the end of the year | | 1,651,996,910 | 34,178,708 |

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

CHIEF EXECUTIVE

DIRECTOR

# Consolidated Statement of Changes in Equity
## for the year ended 30 June 2010

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE HOLDING COMPANY | | | | | | | | NON-CONTROLLING INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|
| | SHARE CAPITAL | | | RESERVES | | | | SHAREHOLDERS' EQUITY | | |
| | | | | CAPITAL RESERVE | REVENUE RESERVES | | | | | |
| | Ordinary shares | Preference shares | Sub Total | Hedging reserve | General reserve | Unappropriated profit | Sub Total | | | |
| | .................................. Rupees .................................. | | | | | | | | | |
| Balance as at 30 June 2008 | 752,008,380 | - | 752,008,380 | 8,617,175 | 1,629,221,278 | 209,736,894 | 1,847,575,347 | 2,599,583,727 | 52,780,624 | 2,652,364,351 |
| Bonus shares issued @ 10% | 75,200,840 | - | 75,200,840 | - | - | (75,200,840) | (75,200,840) | - | - | - |
| 15% non-voting cumulative convertible preference shares issued | - | 413,604,610 | 413,604,610 | - | - | - | - | 413,604,610 | - | 413,604,610 |
| Shares issuance cost, net | - | - | - | - | - | (3,667,721) | (3,667,721) | (3,667,721) | - | (3,667,721) |
| Preference dividend for the year ended 30 June 2009 | - | - | - | - | - | (5,269,209) | (5,269,209) | (5,269,209) | - | (5,269,209) |
| Increase in non-controlling interest | - | - | - | - | - | - | - | - | 306,539,780 | 306,539,780 |
| Total comprehensive income for the year ended 30 June 2009 | - | - | - | (5,734,422) | - | 102,107,816 | 96,373,394 | 96,373,394 | (308,957) | 96,064,437 |
| Balance as at 30 June 2009 | 827,209,220 | 413,604,610 | 1,240,813,830 | 2,882,753 | 1,629,221,278 | 227,706,940 | 1,859,810,971 | 3,100,624,801 | 359,011,447 | 3,459,636,248 |
| Ordinary shares issued | 413,604,610 | - | 413,604,610 | - | - | - | - | 413,604,610 | - | 413,604,610 |
| Shares issuance cost, net | - | - | - | - | - | (9,958,878) | (9,958,878) | (9,958,878) | (5,938,147) | (15,897,025) |
| Preference shares converted into ordinary shares | 344,712,840 | (344,712,840) | - | - | - | - | - | - | - | - |
| Preference dividend for the year ended 30 June 2010 | - | - | - | - | - | (10,333,766) | (10,333,766) | (10,333,766) | - | (10,333,766) |
| Increase in non-controlling interest | - | - | - | - | - | - | - | - | 1,190,527,070 | 1,190,527,070 |
| Total comprehensive income for the year ended 30 June 2010 | - | - | - | (2,882,753) | - | 921,695,058 | 918,812,305 | 918,812,305 | (3,272,750) | 915,539,555 |
| Balance as at 30 June 2010 | 1,585,526,670 | 68,891,770 | 1,654,418,440 | - | 1,629,221,278 | 1,129,109,354 | 2,758,330,632 | 4,412,749,072 | 1,540,327,620 | 5,953,076,692 |

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

CHIEF EXECUTIVE

DIRECTOR

# Notes to the Consolidated Financial Statements
## for the year ended 30 June 2010

### 1. THE GROUP AND ITS OPERATIONS

The Group consists of:

| | |
|---|---|
| Holding Company | - Nishat (Chunian) Limited |
| Subsidiary Company | - Nishat Chunian Power Limited |

Nishat (Chunian) Limited

Nishat (Chunian) Limited ("the Holding Company") is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on the Lahore and Karachi Stock Exchanges. Its registered office is situated at 31-Q, Gulberg II, Lahore. The Company is engaged in business of spinning, weaving, dyeing, printing, stitching, processing, doubling, sizing, buying, selling and otherwise dealing in yarn, fabric and made-ups made from raw cotton, synthetic fibre and cloth and to generate, accumulate, distribute, supply and sell electricity.

Nishat Chunian Power Limited

Nishat Chunian Power Limited (the Subsidiary Company) is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984. Subsequently, on 22 October 2009, it was listed on the Lahore and Karachi Stock Exchanges. The principal activity of the Company is to build, own, operate and maintain a fuel fired power station based on Reciprocating Engine Technology having gross capacity of 200 MW ISO in Jamber Kalan, Tehsil Pattoki, District Kasur, Punjab, Pakistan and to generate, sell and supply electricity. Its registered office is situated at 31-Q, Gulberg II, Lahore. As per terms of the Power Purchase Agreement (PPA) with National Transmission and Despatch Company Limited (NTDCL), the required commercial operation date of the power project was 30 June 2010. However, as at the balance sheet date, the power project was in trial run phase and not commenced commercial operations. Subsequently on 21 July 2010, it commenced commercial operations.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

#### 2.1 Basis of preparation

a) Statement of compliance

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

b) Accounting convention

These consolidated financial statements have been prepared under the historical cost convention except for the certain financial instruments carried at fair value.

c) Critical accounting estimates and judgments

The preparation of these consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the consolidated financial statements or where judgments were exercised in application of accounting policies are as follows:

Useful lives, patterns of economic benefits and impairments

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis of the management. Further, the Group reviews the values of assets for possible impairments on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Accumulating compensated absences

The provision for accumulating compensated absences is made by the Holding Company on the basis of accumulated leave balance on account of employees.

Taxation

In making the estimates for income tax currently payable, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

Provisions for doubtful debts

The Group reviews its receivables against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

d) Standard and amendments to published approved accounting standards that are effective in current year

i) Changes in accounting policies and disclosures arising from standard and amendments to published approved accounting standards that are effective in the current year

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009).The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 01 January 2009). It introduces the "management approach" to segment reporting. IFRS 8 requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision makers in order to assess each segment's performance and to allocate resources to them. Previously, the Group did not present segment information as IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments. Under the management approach, the Group has determined operating segments on the basis of business activities i.e. Spinning, Weaving, Processing and Home Textile and Power Generation. As the change in accounting policy only results in additional disclosures of segment information, there is no impact on earnings per share.

ii) Other amendment to published approved accounting standard that is effective in the current year

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Group's accounting policy on borrowing cost, as disclosed in note 2.10, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Group's accounting policy.

e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Group's consolidated financial statements and are therefore not detailed in these consolidated financial statements.

f) Standards and amendments to published approved accounting standards that are not yet effective but relevant

Following standards and amendments to the published approved accounting standards have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2010 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 has superseded the IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7. The management of the Group is in the process of evaluating impacts of the aforesaid standard on the Group's consolidated financial statements.

There are other amendments resulting from annual improvements projects initiated by International Accounting Standards Board in April 2009 and May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 24 'Related Party Disclosures' IAS 27 'Consolidated and Separate Financial Statements' and IAS 36 'Impairment of Assets' that are considered relevant to the Group's consolidated financial statements. These amendments are unlikely to have a significant impact on the Group's consolidated financial statements and have therefore not been analyzed in detail.

g) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant

There are other accounting standards, amendments to published approved accounting standards and new interpretation that are mandatory for accounting periods beginning on or after 01 July 2010 but are considered not to be relevant or do not have any significant impact on the Group's consolidated financial statements and are therefore not detailed in these consolidated financial statements.

h) Exemption from applicability of IFRIC - 4 ' Determining whether an Arrangement contains a Lease' on the financial statements of Nishat Chunian Power Limited - Subsidiary Company

On 22 June 2009, the Securities and Exchange Commission of Pakistan (SECP) exempted the application of International Financial Reporting Interpretation Committee (IFRIC) 4 'Determining whether an Arrangement contains a Lease' for power sector companies where Letter of Intent (LOI) is issued by the Government on or before 30 June 2010. However, the SECP made it mandatory to disclose the impact of the application of IFRIC 4 on the results of the companies. Consequently, Nishat Chunian Power Limited - Subsidiary Company has been exempted from the application of IFRIC 4 to its financial statements.

Under IFRIC 4, the consideration required to be made by the lessee, National Transmission and Despatch Company Limited (NTDCL), for the right to use the asset is to be accounted for as a finance lease under IAS 17 "Leases". If Nishat Chunian Power Limited - Subsidiary Company were to follow IFRIC 4 and IAS 17, the effect on these consolidated financial statements would be the derecognition of land and capital work-in-progress of Rupees 71,016,715 (2009: Rupees 71,016,715) and Rupees 17,984,649,259 (2009: Rupees 9,142,050,121) respectively, currently reported under property, plant and equipment and the recognition of current assets of Rupees 18,055,665,974 in work-in-progress under inventory. Currently, it has no effect on the consolidated profit and loss account as the Subsidiary Company had not yet commenced commercial operations and the Dependable Capacity test of the power station were being carried out as required under the terms of the Power Purchase Agreement with NTDCL.

## 2.2 Consolidation

Subsidiary

Subsidiary is that entity in which Holding Company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The financial statements of the Subsidiary Company are included in the consolidated financial statements from the date control commences until the date that control ceases.

The assets and liabilities of Subsidiary Company have been consolidated on a line by line basis and the carrying value of investments held by the Holding Company is eliminated against Holding Company's share in paid up capital of the Subsidiary Company.

Intra group balances and transactions have been eliminated.

Non-controlling interest is that part of net results of the operations and of net assets of the Subsidiary Company attributable to interest which is not owned by the Holding Company. Non-controlling interest is presented as a separate item in the consolidated financial statements.

## 2.3 Taxation

Current

Holding Company

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### Subsidiary Company

The Subsidiary Company's profits and gains from electric power generation are exempt from tax under clause (132), Part I of the Second Schedule to the Income Tax Ordinance, 2001. The Subsidiary Company is also exempt from minimum tax on turnover under clause (11A), Part IV of the Second Schedule to the Income Tax Ordinance, 2001. However, full provision is made in the profit and loss account on income from sources not covered under the above clause at current rates of taxation after taking into account, tax credits and rebates available, if any.

### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Nishat Chunian Power Limited - Subsidiary Company has not made provision for deferred tax as the Subsidiary Company's management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the profits and gains of the Company derived from electric power generation are exempt from tax subject to the conditions and limitations provided for in terms of clause (132), Part I of the Second Schedule to the Income Tax Ordinance, 2001.

## 2.4 Employee benefits

The main features of the schemes operated are as follows:

### Provident fund

The Group operates funded provident fund schemes covering all permanent employees. Equal monthly contributions are made both by the employees and the employer to funds in accordance with the fund's rules. The employer's contributions to the funds are charged to income currently.

### Accumulating compensated absences

The Holding Company provides for accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences. Under the rules, head office employees and factory staff are entitled to 20 days leave per year and factory workers are entitled to 14 days leave per year respectively. Unutilized leaves can be accumulated up to 10 days in case of head office employees, 40 days in case of factory staff and up to 28 days in case of factory workers. Any further un-utilized leaves will lapse. Any un-utilized leave balance i.e. 40 days and 28 days in case of factory staff and workers respectively, can be encashed by them at any time during their employment. Unutilized leaves can be used at any time by all employees, subject to the Holding Company's approval. Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to income.

## 2.5 Fixed assets

### Property, plant, equipment and depreciation

Property, plant and equipment except freehold land and capital work in progress are stated at cost less accumulated depreciation and any identified impairment loss. Cost in relation to certain property, plant and equipment signifies historical cost, borrowing cost pertaining to erection / construction period of qualifying assets and other directly attributable cost of bringing the asset to working condition. Freehold land and capital work in progress are stated at cost less any identified impairment loss.

Depreciation on all operating fixed assets is charged to income on the reducing balance method so as to write off the cost of the assets over their estimated useful lives at the rates given in Note 13.1. Depreciation on additions is charged from the month in which the assets are available for use upto the month prior to disposal. The assets' residual values and useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant.

Subsequent costs are included in the asset's carrying amount or recognized 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 cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

### Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated profit and loss account in the year the asset is derecognized.

Intangible asset - Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and that the cost of such asset can also be measured reliably.

Generally, costs associated with developing or maintaining computer software programme are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits accruing for a period exceeding one year, are recognized as intangible asset. Direct costs include the purchase costs of software and related overhead costs. Intangible assets are stated at cost less accumulated amortization and any identified impairment loss. These are amortized on a straight line basis over its estimated useful life.

Previously, amortization on intangible asset was charged on reducing balance method. However, during the year, the Group's management carried out a comprehensive review of the pattern of consumption of economic benefits of the intangible asset. Such a change has been accounted for as a change in accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

## 2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets acquired. Goodwill is tested annually for the impairment and carried at cost less accumulated impairment losses. Any impairment is recognized immediately through the consolidated profit and loss account and is not subsequently reversed.

Negative goodwill is recognized directly in consolidated profit and loss account in the year of acquisition.

## 2.7 Investments

Classification of an investment is made on the basis of intended purpose for holding such investment. Management determines the appropriate classification of its investments at the time of purchase.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for "investment at fair value through profit or loss" which is measured initially at fair value.

The Group assess at the end of each reporting period whether there is any objective evidence that investments are impaired. If any such evidence exists, the Group applies the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' to the investments.

a) Investment at fair value through profit or loss

Investment classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if these are acquired for the purpose of selling in the short term. Gains or losses on investments held-for-trading are recognized in consolidated profit and loss account.

b) Held-to-maturity

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in consolidated profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

c) Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in consolidated statement of other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in consolidated statement of other comprehensive income is included in consolidated profit and loss account. These are sub-categorized as under:

Quoted

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date.

Unquoted

Fair value of unquoted investments is determined on the basis of appropriate valuation techniques as allowed by IAS 39 'Financial Instruments: Recognition and Measurement'.

## 2.8 Inventories

Inventories, except for stock in transit and waste stock, are stated at lower of cost and net realizable value. Cost is determined as follows:

Stores and spares

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Stock in trade

Cost of raw material represents:

| | |
|---|---|
| -Spinning | annual average cost |
| -Weaving, dyeing and stitching | moving average cost |
| -Power generation | moving average cost |

Cost of work-in-process and finished goods comprise cost of direct material, labor and appropriate manufacturing overheads. Cost of goods purchased for resale is based on FIFO.

Materials in transit are stated at cost comprising invoice values plus other charges paid thereon. Waste stock is valued at net realizable value.

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

## 2.9 Foreign currencies

These consolidated financial statements are presented in Pak Rupees, which is the Group's functional currency. All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currencies during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gains and losses are included in the income currently.

## 2.10 Borrowing cost

Borrowing costs are recognized as expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of cost of that asset.

## 2.11 Revenue recognition

Revenue from different sources is recognized as under:

- Revenue from sales is recognized on dispatch of goods to customers.
- Return on bank deposits is accrued on a time proportionate basis by reference to the principal outstanding and the applicable rate of return.
- Revenue on account of energy is recognized on transmission of electricity to National Transmission and Despatch Company Limited, whereas on account of capacity is recognized when due.
- Dividend income on equity investments is recognized as and when the right to receive dividend is established.

## 2.12 Share capital

Ordinary shares and irredeemable preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 2.13 Financial instruments

Financial instruments carried on the balance sheet include deposits, trade debts, loans and advances, other receivables, accrued interest, cash and bank balances, short term borrowings, long term financing, accrued mark-up and trade and other payables. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

Financial assets are de-recognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the following individual policy statements associated with each item and in the accounting policy of investments.

a) Trade and other receivables

Trade debts and other receivables are carried at original invoice value less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

b) Borrowings

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest rate method.

c) Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

### 2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at book value which approximates their fair value. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash at banks on current, saving and deposit accounts, other short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Previously, short term borrowings availed by the Company were included as part of cash and cash equivalents for the purpose of cash flow statement. Now, the changed accounting policy only requires a change in grouping of short term borrowings from cash and cash equivalents to cash flows from financing activities. This change has no impact on earnings per share.

### 2.15 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in equity are recognized in consolidated profit and loss account in the periods when the hedged item will affect profit or loss.

### 2.16 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount can be made.

### 2.17 Related party transactions and transfer pricing

Transactions and contracts with the related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

### 2.18 Impairment

a) Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non-financial assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in consolidated profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated profit and loss account.

### 2.19 Segment reporting

Segment reporting is based on the operating (business) segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision makers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those incomes, expenses, assets, liabilities and other balances which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated.

The Group has four reportable business segments. Spinning (Producing different quality of yarn using natural and artificial fibers), Weaving (Producing different quality of greige fabric using yarn), Processing and Home Textile (Processing greige fabric for production of printed and dyed fabric and manufacturing of home textile articles) and Power Generation (Generating, transmitting and distributing power).

Transaction among the business segments are recorded at arm's length prices using admissible valuation methods. Inter segment sales and purchases are eliminated from the total.

### 2.20 Dividend to ordinary shareholders and other appropriations

Dividend to ordinary shareholders and transfer among reserves are treated as post balance sheet non adjusting events hence do not qualify for provision in the consolidated financial statements as per the requirements of IAS 10 "Events after the Reporting Date". These transfers are therefore recorded in the next year's consolidated financial statements.

### 2.21 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated financial statements when there is a legal enforceable right to set off and the management intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

## 3. AUTHORIZED SHARE CAPITAL

| 2010 | 2009 | | 2010 | 2009 |
|---|---|---|---|---|
| (Number of Shares) | | | Rupees | Rupees |
| 175,000,000 | 130,000,000 | Ordinary shares of Rupees 10 each | 1,750,000,000 | 1,300,000,000 |
| 20,000,000 | 45,000,000 | 15% non-voting cumulative convertible preference shares of Rupees 10 each | 200,000,000 | 450,000,000 |
| 195,000,000 | 175,000,000 | | 1,950,000,000 | 1,750,000,000 |

3.1 The Holding Company has increased its authorized share capital (ordinary shares) by Rupees 200,000,000 divided into 20 million ordinary shares of Rupees 10 each by way of special resolution of its members in their Extra Ordinary General Meeting dated 20 August 2009.

| 2010 (Number of shares) | 2009 | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|
| Ordinary shares | | | | |
| 87,831,745 | 12,000,000 | Ordinary shares of Rupees 10 each fully paid in cash | 878,317,450 | 120,000,000 |
| 69,496,657 | 69,496,657 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | 694,966,570 | 694,966,570 |
| 1,224,265 | 1,224,265 | Ordinary shares of Rupees 10 each issued as fully paid for consideration other than cash to members of Umer Fabrics Limited as per the Scheme of arrangement as approved by the Honourable Lahore High Court, Lahore | 12,242,650 | 12,242,650 |
| 158,552,667 | 82,720,922 | | 1,585,526,670 | 827,209,220 |
| Preference shares | | | | |
| 6,889,177 | 41,360,461 | 15% non-voting cumulative convertible preference shares of Rupees 10 each fully paid in cash | 68,891,770 | 413,604,610 |
| 165,441,844 | 124,081,383 | | 1,654,418,440 | 1,240,813,830 |

## 4.1 Ordinary shares of the Holding Company held by related parties

| | 2010 (Number of shares) | 2009 |
|---|---|---|
| Nishat Mills Limited | 22,513,321 | 11,256,661 |
| D.G. Khan Cement Company Limited | 5,010,059 | 7,775,482 |
| | 27,523,380 | 19,032,143 |

## 4.2 Preference shares of the Holding Company held by related parties

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Nishat Mills Limited | - | 5,628,330 |
| D.G. Khan Cement Company Limited | - | 3,887,741 |
| | - | 9,516,071 |

## 4.3 Movement during the year

| 2010 (Number of shares) | 2009 | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|
| Ordinary shares | | | | |
| 82,720,922 | 75,200,838 | At 01 July | 827,209,220 | 752,008,380 |
| - | 7,520,084 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | - | 75,200,840 |
| 41,360,461 | - | Ordinary shares of Rupees 10 each issued as fully paid right shares | 413,604,610 | - |
| 34,471,284 | - | Preference shares converted into ordinary shares of Rupees 10 each at par | 344,712,840 | - |
| 158,552,667 | 82,720,922 | | 1,585,526,670 | 827,209,220 |
| Preference shares | | | | |
| 41,360,461 | - | At 01 July | 413,604,610 | - |
| - | 41,360,461 | 15% non-voting cumulative convertible preference shares of Rupees 10 each fully paid in cash | - | 413,604,610 |
| (34,471,284) | - | Preference shares converted into ordinary shares of Rupees 10 each at par | (344,712,840) | - |
| 6,889,177 | 41,360,461 | | 68,891,770 | 413,604,610 |

4.4 The Holding Company, during the financial year ended 30 June 2009, had offered to the shareholders of the Company 41,360,461 preference shares of Rupees 10 each at par value. This preference shares right issue was made in the ratio of 50 preference shares (non-voting cumulative convertible) for every 100 ordinary shares held by the Holding Company's shareholders as on 10 February 2009. These shares are listed on Lahore and Karachi Stock Exchanges of Pakistan. The salient terms of this issue are as follows:

4.4.1 The preference shares are non-voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation. No cash dividend on ordinary shares will be payable untill all the dividends on preference shares have been paid.

4.4.2 The preference shareholders are not entitled to bonus or right shares in the event the Holding Company increases its share capital by the issue of further ordinary shares or otherwise, except on preference shares which have been converted into ordinary shares.

4.4.3 The preference shareholders will have the option to serve the conversion notice after the end of the three months from the date of issue of preference shares and upto three years from the date of issue. At the expiry of three years from the date of issue, all outstanding preference shares will be converted into ordinary shares at the conversion price. Preference shareholders will have the option to serve a notice to convert the preference shares along with the accumulated dividend into the ordinary shares of the Holding Company within the conversion period by providing a two months written notice to the Holding Company. The Holding Company will have one month after the two months conversion notice to issue ordinary shares to the preference shareholders at the conversion price. The preference shares along with the accumulated dividend will be convertible into ordinary shares at a price Rupees 10 per ordinary share. No put or call option is available.

4.4.4 Preferred dividend will be paid on an annual basis at the end of each accounting period subsequent to 30 June 2010 or proportionately for the period prior to 30 June 2010 from the date of issue and after the approval of the dividend payment in the Annual General Meeting of the Holding Company. The preferred dividend amount will be determined after applying the relevant dividend rate to the outstanding preference shares. The preferred dividend will be paid at the rate of 15%.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **5. RESERVES** | | |
| Composition of reserves is as follows: | | |
| Capital reserve | | |
| Hedging reserve (Note 5.1) | - | 2,882,753 |
| Revenue reserves | | |
| General reserve | 1,629,221,278 | 1,629,221,278 |
| Unappropriated profit | 1,129,109,354 | 227,706,940 |
| | 2,758,330,632 | 1,856,928,218 |
| | 2,758,330,632 | 1,859,810,971 |

5.1 This represent the unrealized gain on remeasurement of derivative quanto (interest rate) swap at fair value and is not available for distribution.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **6. LONG TERM FINANCING** | | |
| From banking companies - secured | | |
| Long term loans (Note 6.1) | 19,087,086,267 | 11,725,597,210 |
| Long term musharika (Note 6.2) | 587,500,000 | 250,000,000 |
| | 19,674,586,267 | 11,975,597,210 |
| Less: Current portion shown under current liabilities (Note 11) | 1,953,143,926 | 1,679,207,525 |
| | 17,721,442,341 | 10,296,389,685 |

## 6.1 Long term loans

| Lender | 2010 Rupees | 2009 Rupees | Rate of mark up per annum | Number of installments | Mark up repricing | Mark up payable |
|---|---|---|---|---|---|---|
| Nishat (Chunian) Limited - Holding Company | | | | | | |
| Standard Chartered Bank (Pakistan) Limited | - | 50,000,000 | 6-month KIBOR +0.5% | Eight equal half yearly installments commenced on 25 August 2006 and ended 25 February 2010 | Half Yearly | Half Yearly |
| Standard Chartered Bank (Pakistan) Limited | 500,000,000 | - | 6-month KIBOR +2.5% | Five equal half yearly installments commencing on 24 December 2010 and ending on 24 December 2012 | Half Yearly | Half Yearly |
| The Royal Bank of Scotland Limited | - | 300,000,000 | 6-month KIBOR +1.25% | Bullet Payment on 30 June 2009 | Half Yearly | Half Yearly |
| United Bank Limited-1 | - | 71,428,645 | 6-month KIBOR +0.50% | Seven equal half yearly installments commenced on 28 September 2006 and ended 28 September 2009 | Half Yearly | Quarterly |
| United Bank Limited-2 | 187,500,000 | 250,000,000 | SBP rate for LTF-EOP+ 3% | Eight equal half yearly installments commenced on 28 February 2007 and ending on 31 July 2011 | - | Quarterly |
| United Bank Limited-3 | 80,000,000 | 120,000,000 | 6-month KIBOR +1.05% | Ten equal half yearly installments commenced on 27 December 2007 and ending on 27 June 2012 | Half Yearly | Half Yearly |
| United Bank Limited-4 | 250,000,000 | 350,000,000 | 6-month KIBOR +0.95% | Ten equal half yearly installments commenced on 24 June 2008 and ending on 24 December 2012 | Half Yearly | Half Yearly |
| United Bank Limited-5 | 437,500,000 | 500,000,000 | 6-month KIBOR +1.75% | Eight equal half yearly installments commenced on 31 March 2010 and ending on 30 September 2013 | Half Yearly | Quarterly |
| United Bank Limited-6 | 35,000,000 | 250,000,000 | 6-month KIBOR +2.40% | Six equal half yearly installments commencing on 31 December 2010 and ending on 30 June 2013 | Half Yearly | Quarterly |
| United Bank Limited-7 | 28,600,000 | - | SBP rate for LTFF-EOP+ 2.5% | Eight equal half yearly installments commencing on 10 July 2011 and ending on 10 January 2015 | - | Quarterly |
| United Bank Limited-8 | 38,400,000 | - | SBP rate for LTFF-EOP+ 2.5% | Eight equal half yearly installments commencing on 08 June 2011 and ending on 08 December 2014 | - | Quarterly |
| United Bank Limited-9 | 8,800,000 | - | SBP rate for LTFF-EOP+ 2.5% | Eight equal half yearly installments commencing on 28 July 2011 and ending on 28 January 2015 | - | Quarterly |
| United Bank Limited-10 | 88,600,000 | - | SBP rate for LTFF-EOP+ 2.5% | Eight equal half yearly installments commencing on 18 July 2011 and ending on 18 January 2015 | - | Quarterly |
| United Bank Limited-11 | 26,500,000 | - | SBP rate for LTFF-EOP+ 2.5% | Eight equal half yearly installments commencing on 26 July 2011 and ending on 26 January 2015 | - | Quarterly |
| Habib Bank Limited-1 | 27,350,000 | 58,600,000 | SBP rate for LTF-EOP+2% | Six equal half yearly installments commenced on 30 March 2007 and ending on 30 September 2010 | - | Quarterly |
| Habib Bank Limited-2 | 62,500,000 | 93,750,000 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 25 December 2006 and ending on 25 June 2011 | - | Quarterly |
| Habib Bank Limited-3 | 27,467,388 | 36,623,184 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 24 May 2007 and ending on 24 November 2011 | - | Quarterly |
| Habib Bank Limited-4 | 30,476,816 | 38,096,020 | SBP rate for LTF-EOP+3% | Eight equal half yearly installments commenced on 03 August 2007 and ending on 03 February 2012 | - | Quarterly |
| Habib Bank Limited-5 | 231,111,111 | 260,000,000 | 6-month KIBOR +2.50% | Nine equal half yearly installments commenced on 01 April 2010 and ending on 01 April 2014 | Half Yearly | Quarterly |
| Habib Bank Limited-6 | 213,333,333 | 240,000,000 | 6-month KIBOR +2.50% | Nine equal half yearly installments commenced on 25 June 2010 and ending on 25 June 2014 | Half Yearly | Quarterly |
| Citibank N.A | 74,666,668 | 149,333,334 | SBP rate for LTF-EOP+2% | Six equal half yearly installments commenced on 31 December 2007 and ending on 27 June 2011 | - | Half Yearly |
| Allied Bank Limited-1 | - | 83,329,997 | SBP rate for LTF-EOP+2% | Twelve equal quarterly installments commenced on 28 September 2006 and ended 28 June 2010 | - | Quarterly |
| Allied Bank Limited-2 | - | 100,000,000 | SBP rate for LTF-EOP+2% | Ten equal quarterly installments commenced on 15 March 2007 and ended15 June 2010 | - | Quarterly |
| Allied Bank Limited-3 | 200,000,000 | 300,000,000 | 6-month KIBOR +1.05% | Six equal half yearly installments commenced on 23 December 2009 and ending on 23 June 2012 | Half Yearly | Half Yearly |
| Allied Bank Limited-4 | 250,000,000 | 350,000,000 | 6-month KIBOR +1.05% | Ten equal half yearly installments commenced on 28 March 2008 and ending on 28 September 2012 | Half Yearly | Half Yearly |
| Allied Bank Limited-5 | 350,000,000 | 490,000,000 | 6-month KIBOR +0.85% | Ten equal half yearly installments commenced on 15 June 2008 and ending on 15 December 2012 | Half Yearly | Half Yearly |
| Pak Kuwait Investment Company (Private) Limited | 200,000,000 | - | 6-month KIBOR +2.50% | Eighteen equal quarterly installments commencing on 14 January 2011 and ending on 14 April 2015 | Half Yearly | Quarterly |
| Atlas Bank Limited | 150,000,000 | 195,000,000 | 6-month KIBOR + 1.05% | Twenty equal quarterly installments commenced on 29 December 2007 and ending on 29 September 2012 | Half Yearly | Quarterly |
| National Bank of Pakistan | 187,500,000 | 250,000,000 | 6-month KIBOR + 2.50% | Eight equal half yearly installments commenced on 30 September 2009 and ending on 31 March 2013 | Half Yearly | Half Yearly |
| | 3,685,305,316 | 4,536,161,180 | | | | |
| Nishat Chunian Power Limited-Subsidiary Company | | | | | | |
| Senior facility (Note 6.6) | 12,354,502,346 | 7,189,436,030 | 3-month KIBOR + 3% | Forty unequal quarterly installments commencing on 30 September 2010. | Quarterly | Quarterly |
| Term finance facility (Note 6.7) | 3,047,278,605 | - | 3-month KIBOR + 3% | Forty unequal quarterly installments commencing on 30 September 2010. | Quarterly | Quarterly |
| | 15,401,780,951 | 7,189,436,030 | | | | |
| | 19,087,086,267 | 11,725,597,210 | | | | |

## 6.2 Long term musharika - Nishat (Chunian) Limited - Holding Company

| Lender | 2010 Rupees | 2009 Rupees | Rate of mark up per annum | Number of installments | Mark up repricing | Mark up payable |
|---|---|---|---|---|---|---|
| Dawood Islamic Bank Limited | 187,500,000 | 250,000,000 | 6-month KIBOR +1.25% | Sixteen equal quarterly installments commenced on 30 September 2009 and ending on 30 June 2013 | Half Yearly | Quarterly |
| Dubai Islamic Bank (Pakistan) Limited | 400,000,000 | - | 6-month KIBOR +1.80% | Ten equal half yearly installments commencing on 01 October 2010 and ending on 01 April 2015 | Half Yearly | Quarterly |
| | 587,500,000 | 250,000,000 | | | | |

6.3 Long term loans of Holding Company are secured by first joint pari passu hypothecation and equitable mortgage on all present and future fixed assets of the Company to the extent of Rupees 7,345 million (2009: Rupees 8,033 million). However, Pak Kuwait Investment Company (Private) Limited has ranking charge on all present and future fixed assets of the Holding Company to the extent of Rupees 266.666 million (2009: Rupees Nil) out of the total charge.

## 6.4 Derivative quanto (interest rate) swap

The Holding Company entered into a derivative quanto (interest rate) swap of notional amount of Rupees 500 million for its local currency loans to hedge the possible adverse movement in interest rates. Under the terms of the agreement, the Holding Company paid JPY London Interbank Offered Rate (LIBOR) plus bank spread @ 10.15% semi annually to the arranging bank on the local currency loan and receives Karachi Interbank Offered Rate (KIBOR). There was no transfer of liability in this arrangement, only nature of interest payment changed. As this arrangement was effective and meet the criteria for cash flow hedge, this arrangement qualified for hedge accounting as per IAS 39 'Financial Instruments: Recognition and Measurement'. The derivative quanto (interest rate) swap matured during the year.

6.5 The long term musharika from Dawood Islamic Bank Limited is secured by first joint pari passu hypothecation and equitable mortgage on all present and future fixed assets of the Holding Company to the extent of Rupees 250 million (2009: Rupees 333 million). The long term musharika from Dubai Islamic Bank (Pakistan) Limited is secured by ranking charge on all present and future fixed assets of the Holding Company to the extent of Rupees 533.333 million (2009: Rupees Nil).

6.6 This represents long term financing obtained by Subsidiary Company from a consortium of banks led by United Bank Limited (Agent Bank). The portion of long term financing from Faysal Bank Limited is on murahaba basis. The total project financing facility amounts to Rupees 12,354,502,346. The financing is secured to the extent of Rupees 18,119,516,987 against first joint pari passu charge on mortgaged immovable property, mortgage project receivables (excluding mortgaged energy payment receivables), hypothecation of all present and future assets and all properties of the Subsidiary Company (excluding working capital hypothecated property), lien over project bank accounts and pledge of shares of Holding Company in Nishat Chunian Power Limited. It carries mark-up at the rate of three months KIBOR plus three percent per annum payable on quarterly basis. The effective mark-up rate during the year ended 30 June 2010 ranged from 15.34% to 15.77% (2009: 15.77% to 18.52%) per annum.

6.7 This represents long term financing obtained by Subsidiary Company from a consortium of banks led by United Bank Limited (Agent Bank). The total project financing facility amounts to Rupees 3,047,278,605. The financing is secured to the extent of Rupees 4,332,000,000 against first joint pari passu charge on mortgaged immovable property, mortgage project receivables (excluding mortgaged energy payment receivables), hypothecation of all present and future assets and all properties of the Subsidiary Company (excluding working capital hypothecated property), lien over project bank accounts and pledge of shares of Holding Company in Nishat Chunian Power Limited.

## 7. DEFERRED TAX LIABILITY

This represented deferred tax liability on gain arising during the year ended 30 June 2009 on quanto interest rate swap (Note 6.4) which was reversed during the current year on maturity of derivative. Provision for deferred tax on other temporary differences was not considered necessary as the Holding Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **8. TRADE AND OTHER PAYABLES** | | |
| Creditors (Note 8.1) | 368,919,344 | 209,805,572 |
| Payable to equipment suppliers | 789,674,902 | - |
| Accrued liabilities | 171,585,258 | 148,682,231 |
| Advances from customers | 62,115,680 | 26,477,001 |
| Securities from contractors - interest free, repayable on completion of contracts | 2,222,637 | 1,617,842 |
| Retention money | 9,979,074 | 7,983,112 |
| Income tax deducted at source | 794,937 | 3,376,930 |
| Unpaid and unclaimed dividend | 13,495,721 | 13,551,654 |
| Preference dividend payable | 10,337,905 | 5,269,209 |
| Workers' profit participation fund (Note 8.2) | 57,112,696 | 9,066,344 |
| Workers' welfare fund | 21,681,803 | 9,511,304 |
| Commitment fee | 468,901 | 1,707,577 |
| Others | 24,361,916 | 22,571,120 |
| | 1,532,750,774 | 459,619,896 |

8.1 It includes Rupees 3.694 million (2009: Rupees 1.196 million) due to related parties.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **8.2 Workers' profit participation fund** | | |
| Balance as on 01 July | 9,066,344 | 4,036,732 |
| Interest for the year (Note 29) | 1,051,075 | 481,311 |
| Add: Provision for the year (Note 27) | 57,112,696 | 9,066,344 |
| | 67,230,115 | 13,584,387 |
| Less : Payments during the year | 10,117,419 | 4,518,043 |
| | 57,112,696 | 9,066,344 |

8.2.1 Workers' profit participation fund is retained for business operations till the date of allocation to workers. Interest is paid at prescribed rate under the Companies Profit (Workers' Participation) Act, 1968 on funds utilized till the date of allocation to workers.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **9. ACCRUED MARK-UP** | | |
| Long term financing | 662,674,828 | 328,570,126 |
| Short term borrowings | 114,315,977 | 83,891,068 |
| | 776,990,805 | 412,461,194 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **10. SHORT TERM BORROWINGS** | | |
| From banking companies-secured | | |
| Nishat (Chunian) Limited - Holding Company | | |
| Short term running finances (Notes 10.1 and 10.2) | 1,081,105,841 | 1,212,392,470 |
| Export finances-Preshipment / SBP refinance (Notes 10.1 and 10.3) | 2,324,688,364 | 1,008,185,571 |
| Other short term finances (Notes 10.1 and 10.4) | 1,262,003,467 | 1,280,000,000 |
| Nishat Chunian Limited - Subsidiary Company | | |
| Working capital finance from: | | |
| Consortium of banks (Note 10.5) | 1,328,684,977 | - |
| Bank Alfalah Limited (Note 10.6) | 496,257,000 | - |
| | 6,492,739,649 | 3,500,578,041 |

10.1 These finances are obtained from banking companies under mark-up arrangements and are secured by hypothecation of all present and future current assets of the Holding Company and lien on export bills to the extent of Rupees 10.259 million (2009: Rupees 10.263 million). These form part of total credit facility of Rupees 5,743 million (2009: Rupees 8,455 million).

10.2 The rates of mark-up range from 1.57% to 17% (2009: 3.01% to 17%) per annum on the balance outstanding.

10.3 The rates of mark-up range from 1.26% to 16% (2009: 3.33% to 15.13% ) per annum on the balance outstanding.

10.4 The rates of mark-up range from 12.87% to 15.22% (2009: 14.20% to 15.22%) per annum on the balance outstanding.

10.5 The total amount of working capital finance facility from consortium of financial institutions is Rupees 2,215,333,334. It is secured to the extent of Rupees 2,953,777,779 against first priority hypothecation charge ranking pari passu on all present and future energy payment account and facility accounts, all amounts standing to the credit of the energy payment account and facility accounts, fuel stocks, inventory and energy payment receivables. This facility is further secured against hypothecation second charge ranking pari passu on all present and future assets and properties of the Subsidiary Company [excluding mortgaged project receivables, mortgaged energy payment receivables and hypothecated assets (first charge)].It carries mark-up at the rate of three months KIBOR plus two percent per annum payable on quarterly basis. The rates of mark-up ranged from 14.34% to 14.28% (2009: Nil) per annum on the balance outstanding.

10.6 The total amount of murabaha finance facility is Rupees 1,000,000,000. The purpose of the financing facility is to purchase furnace oil, diesel oil and / or other petroleum products. It is secured to the extent of Rupees 1,333.33 million against first pari passu hypothecation charge over fuel stock of the Subsidiary Company and first pari passu assignment of receivables by National Transmission and Dispatch Company Limited (NTDCL) pertaining to fuel cost component of energy payment price. It carries profit at the rate of three months KIBOR plus two percent per annum payable on maturity of the respective murabaha transaction. The rate of profit during the year was 14.30% (2009: Nil) per annum on the balance outstanding.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **11. CURRENT PORTION OF NON-CURRENT LIABILITIES** | | |
| Long term loans | 1,810,643,926 | 1,616,707,525 |
| Long term musharika | 142,500,000 | 62,500,000 |
| | 1,953,143,926 | 1,679,207,525 |

## 12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 Guarantees of Rupees 199.678 million (2009: Rupees 187.219 million) have been issued by the banks of the Holding Company to Sui Northern Gas Pipelines Limited against gas connections.

12.2 The Holding Company has given following guarantees on behalf of Nishat Chunian Power Limited - Subsidiary Company:

- Performance guarantee of USD 1 million (Pak Rupees 85.60 million) [2009: USD 1 million (Pak Rupees 81.100 million)] in favour of Private Power and Infrastructure Board (Government of Pakistan) to secure performance of Nishat Chunian Power Limited - Subsidiary Company under Implementation Agreement and Power Purchase Agreement.

- The Holding Company has issued irrevocable standby letters of credit of Rupees 642.406 million (2009: Rupees 882.876 million) for equity injection and Rupees Nil (2009: Rupees 147.120 million) for positive cost overrun, in accordance with Project Funds Agreement, in favour of security trustee of syndicated lenders of Nishat Chunian Power Limited - Subsidiary Company.

12.3 Irrevocable letter of credit of USD 5,369,650 (2009: USD 5,369,650) equivalent to Rupees 459,642,040 (2009: Rupees 436,552,545) given by Subsidiary Company in favour of National Transmission and Dispatch Company as required under the Power Purchase Agreement.

12.4 Payment guarantee of Rupees 163,373,400 (2009: Rupees 312,139,296) equivalent to USD 1,922,040 (2009: USD 3,844,080) given by Subsidiary Company in favour of Wartsila Pakistan (Private) Limited to secure payment obligation by the Subsidiary Company under construction services contract.

12.5 The Holding Company has preferred appeal against the Government of Punjab in the Honourable Lahore High Court against imposition of Electricity Duty on internal generation. The Holding Company has fully provided and paid its liability in respect of generation for the current year.

12.6 The Collectorate of Customs (Export) has issued show cause notices to the Holding Company with the intention to reject the duty draw back claims aggregating to Rupees 9.482 million (2009: 9.482 million) on blended grey fabrics exported under Duty and Tax Remission Rules for Export (DTRE) scheme. The department is of the view that the Holding Company has not submitted Appendix-1 as per Rule 297-A of the above referred scheme. The Holding Company considers that since it has taken benefit of remission of sales tax only, it is entitled to full duty draw back and has filed appeal before Appellate Tribunal Inland Revenue (ATIR) Karachi Bench which is still pending. The Holding Company also applied to Federal Board of Revenue (FBR) to constitute Alternate Dispute Resolution Committee (ADRC) in terms of section 195C of the Custom Act, 1969 to settle the dispute. ADRC vide its order dated 16 April 2008 has recommended the case in favour of the Holding Company and forwarded the case to FBR. The matter is still pending at FBR end.

12.7 Orders were issued by the Officer Inland Revenue under Section 221 of the Income Tax Ordinance, 2001 for assessment years 1998-99 to 2000-01 under which the assessing officer has levied tax under Section 80D on local sales of the Holding Company irrespective of the tax paid under Section 80CC and thus creating a demand of Rupees 1.470 million, Rupees 1.436 million and Rupees 2.250 million respectively for said years. An appeal against said orders was filed before the Commissioner Inland Revenue (Appeals) who decided the case in favour of the Holding Company. The department filed appeals before Appellate Tribunal Inland Revenue (ATIR) who has decided the case in Holding Company's favour subsequent to the reporting date. The appeal effect orders are pending.

12.8 Order was issued by the Assistant Commissioner Inland Revenue (ACIR) under section 122(1) of the Income Tax Ordinance, 2001 for tax year 2008 as a result of audit of the Holding Company under section 177 of the Income Tax Ordinance, 2001 whereby a demand of Rupees 42.833 million has been raised against the Company on various grounds. The Holding Company has filed an appeal before Commissioner Inland Revenue (Appeals) and consider that its stance is based on reasonable grounds and appeal is likely to succeed. Hence, no provision has been recognized in these consolidated financial statements based on advice of the legal counsel.

12.9 While framing assessment orders of Umer Fabrics Limited (merged entity) for the assessment years 1998-99, 2000-01, 2001-02 and 2002-03, the Officer Inland Revenue disallowed certain expenses on pro-rata basis and disagreed on certain additions. The Holding Company being aggrieved filed appeals with the Commissioner Inland Revenue (Appeals) which was decided in Holding Company's favour against which the department preferred an appeal to Appellate Tribunal Inland Revenue (ATIR). ATIR decided the case in favour of the Holding Company. The department has filed an appeal before Honourable Lahore High Court. No provision against these disallowances and addition has been made in the consolidated financial statements as the management is confident that the matter would be settled in the Holding Company's favour. If the decision of ATIR is not upheld, the provision for taxation amounting to Rupees 17.157 million (2009: Rupees 17.157 million) would be required.

12.10 As a result of withholding tax audit for the tax year 2006, the Deputy Commissioner Inland Revenue (DCIR) has raised a demand of Rupees 32.156 million under sections 161 and 205 of the Income Tax Ordinance, 2001. The Holding Company has filed an appeal before Commissioner Inland Revenue (Appeals) against the order of DCIR and expects a favourable outcome of the appeal based on advice of the legal counsel.

12.11 The Deputy Collector (Refund – Gold) by order dated 16 May 2007 rejected the input tax claim of the Holding Company, for the month of June 2005, amounting to Rupees 1.604 million incurred in zero rated local supplies of textile and articles thereof on the grounds that the input tax claim is in contravention of SRO 992(I)/2005 which states that no registered person engaged in the export of specified goods (including textile and articles thereof) shall, either through zero-rating or otherwise, be entitled to deduct or reclaim input tax paid in respect of stocks of such goods acquired up to 05 June 2005, if not used for the purpose of exports made up to the 31 December 2005. The appeal of the Holding Company before Appellate Tribunal Inland Revenue (ATIR) was successful and input tax claim of the Holding Company is expected to be processed after necessary verification in this regard. Pending the outcome of verification no provision for inadmissible input tax has been recognized in these consolidated financial statements.

12.12 As per terms of PPA with NTDCL (the power purchaser), the required commercial operations date of the power project was 30 June 2010. However, the Subsidiary Company achieved commercial operations subsequent to the reporting date i.e. on 21 July 2010. Consequently, the power purchaser has raised liquidated damages against the Subsidiary Company for not meeting the required commercial operation date in accordance with section 9.4 of the PPA, which are estimated at USD 331,207 equivalent to Rupees 28.351 million.

12.13 The Subsidiary Company's management has requested in writing to the power purchaser for extension in the required commercial operation date on the basis that the delay in commissioning was due to circumstances beyond the Company's control, which is under consideration of the power purchaser. The Subsidiary Company's management is confident, based on advice of the legal counsel, that there are meritorious grounds that the power purchaser would not press for recovery of liquidated damages against the Subsidiary Company as it has not yet initiated any recovery proceedings from other Independent Power Producers facing similar issue. Consequently, no provision has been made in these consolidated financial statements for the abovementioned liquidated damages that may be raised by the power purchaser.

12.14 Post dated cheques have been issued to custom authorities by the Holding Company in respect of duties amounting to Rupees 36.933 million (2009: Rupees 24.689 million) on imported material availed on the basis of consumption and export plans. In the event the documents of exports are not provided on due dates, cheque issued as security shall be encashable.

Commitments

i) Contracts for capital expenditure of the Group are amounting to Rupees 389.159 million (2009: Rupees 7,095.186 million).

ii) Letters of credit other than for capital expenditure of the Group are amounting to Rupees 68.954 million (2009: Rupees 291.489 million).

iii) Quanto (interest rate) swap entered by Holding Company of Rupees Nil (outstanding notional amount) (2009: Rupees 500.000 million) as on 30 June 2010.

iv) The Holding Company has entered into foreign currency forward contracts of Rupees 3,031.700 million (2009: Rupees 1,131.288 million).

v) The Subsidiary Company has entered into a contract for purchase of fuel oil from Shell Pakistan Limited (SPL) for a period of 10 years starting from the commercial operations date of the power station. Under the terms of the fuel supply agreement, the Subsidiary Company is not required to buy any minimum quantity of oil from SPL.

vi) The Subsidiary Company has also entered into an agreement with Wartsila Pakistan (Private) Limited for the operations and maintenance (O&M) of the power station which shall remain in effect until earlier of the end of five years from the commercial operation date i.e. 21 July 2010 or the last day of the month in which the running hours of the first generator set reaches 35,000 hours. Under the terms of the O&M agreement, the Subsidiary Company is required to pay a monthly fixed O&M fee and variable O&M fee depending on the net electrical output, both of which are adjustable according to the Wholesale Price Index.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13. FIXED ASSETS** | | |
| Property, plant and equipment | | |
| Operating assets (Note 13.1) | 5,669,936,185 | 5,981,577,203 |
| Capital-work-in progress (Note 13.2) | 18,349,251,382 | 9,162,761,309 |
| | 24,019,187,567 | 15,144,338,512 |
| Intangible asset: | | |
| Computer software | 527,600 | 923,300 |
| Intangible asset under development - ERP computer software | 7,376,943 | - |
| | 24,027,092,110 | 15,145,261,812 |

13.1 Reconciliation of carrying amounts at the beginning and at end of the year is as follows:

| Description | Freehold land | Building on freehold land | Plant and machinery | Electric installations | Factory equipment | Furniture, fixture and equipment | Office equipment | Motor vehicles | Total operating assets | Computer software |
|---|---|---|---|---|---|---|---|---|---|---|
| | - R u p e e s - | | | | | | | | | |
| At 01 July 2008 | | | | | | | | | | |
| Cost | 258,793,047 | 1,524,176,771 | 7,386,827,035 | 158,877,208 | 63,191,385 | 39,520,987 | 126,579,727 | 109,883,361 | 9,667,849,521 | - |
| Accumulated depreciation | - | (595,280,013) | (2,714,572,585) | (79,747,805) | (36,180,235) | (15,761,847) | (36,237,224) | (50,436,522) | (3,528,216,231) | - |
| Net book value | 258,793,047 | 928,896,758 | 4,672,254,450 | 79,129,403 | 27,011,150 | 23,759,140 | 90,342,503 | 59,446,839 | 6,139,633,290 | - |
| Year ended 30 June 2009 | | | | | | | | | | |
| Opening net book value | 258,793,047 | 928,896,758 | 4,672,254,450 | 79,129,403 | 27,011,150 | 23,759,140 | 90,342,503 | 59,446,839 | 6,139,633,290 | - |
| Additions | 1,000,000 | 50,229,330 | 306,220,996 | 9,694,793 | 78,100 | 1,135,718 | 3,595,748 | 18,411,235 | 390,365,920 | 1,319,000 |
| Disposals: | | | | | | | | | | |
| Cost | - | - | (13,491,708) | - | - | - | - | (16,111,871) | (29,603,579) | - |
| Accumulated depreciation/ amortization | - | - | 9,153,885 | - | - | - | - | 9,741,999 | 18,895,884 | - |
| | - | - | (4,337,823) | - | - | - | - | (6,369,872) | (10,707,695) | - |
| Depreciation / amortization charge | - | (48,011,127) | (456,605,549) | (8,000,889) | (2,703,218) | (2,449,285) | (9,295,433) | (10,648,811) | (537,714,312) | (395,700) |
| Closing net book value | 259,793,047 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,445,573 | 84,642,818 | 60,839,391 | 5,981,577,203 | 923,300 |
| At 01 July 2009 | | | | | | | | | | |
| Cost | 259,793,047 | 1,574,406,101 | 7,679,556,323 | 168,572,001 | 63,269,485 | 40,656,705 | 130,175,475 | 112,182,725 | 10,028,611,862 | 1,319,000 |
| Accumulated depreciation / amortization | - | (643,291,140) | (3,162,024,249) | (87,748,694) | (38,883,453) | (18,211,132) | (45,532,657) | (51,343,334) | (4,047,034,659) | (395,700) |
| Net book value | 259,793,047 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,445,573 | 84,642,818 | 60,839,391 | 5,981,577,203 | 923,300 |
| Year ended 30 June 2010 | | | | | | | | | | |
| Opening net book value | 259,793,047 | 931,114,961 | 4,517,532,074 | 80,823,307 | 24,386,032 | 22,445,573 | 84,642,818 | 60,839,391 | 5,981,577,203 | 923,300 |
| Additions | - | 43,196,901 | 145,798,692 | 198,900 | - | 410,400 | 8,442,668 | 14,229,713 | 212,277,274 | - |
| Disposals: | | | | | | | | | | |
| Cost | - | - | (9,857,222) | - | - | - | (24,000) | (7,374,265) | (17,255,487) | - |
| Accumulated depreciation/ amortization | - | - | 7,101,851 | - | - | - | 400 | 4,800,514 | 11,902,765 | - |
| | - | - | (2,755,371) | - | - | - | (23,600) | (2,573,751) | (5,352,722) | - |
| Depreciation / amortization charge | - | (46,941,396) | (438,354,619) | (8,096,421) | (2,438,603) | (2,249,342) | (8,991,799) | (11,493,390) | (518,565,570) | (395,700) |
| Closing net book value | 259,793,047 | 927,370,466 | 4,222,220,776 | 72,925,786 | 21,947,429 | 20,606,631 | 84,070,087 | 61,001,963 | 5,669,936,185 | 527,600 |
| At 30 June 2010 | | | | | | | | | | |
| Cost | 259,793,047 | 1,617,603,002 | 7,815,497,793 | 168,770,901 | 63,269,485 | 41,067,105 | 138,594,143 | 119,038,173 | 10,223,633,649 | 1,319,000 |
| Accumulated depreciation / amortization | - | (690,232,536) | (3,593,277,017) | (95,845,115) | (41,322,056) | (20,460,474) | (54,524,056) | (58,036,210) | (4,553,697,464) | (791,400) |
| Net book value | 259,793,047 | 927,370,466 | 4,222,220,776 | 72,925,786 | 21,947,429 | 20,606,631 | 84,070,087 | 61,001,963 | 5,669,936,185 | 527,600 |
| Annual rate of depreciation / amortization (%) | - | 5 | 10 | 10 | 10 | 10 | 10 - 30 | 20 | | 30 |

13.1.1 Detail of operating assets disposed of during the year is as follows:

| Description | Cost | Accumulated depreciation | Net Book Value | Sale Proceeds | (Gain)/ Loss | Mode of Disposal | Particulars of Purchaser |
|---|---|---|---|---|---|---|---|
| | ............. Rupees ............. | | | | | | |
| Plant and machinery | | | | | | | |
| Compressor Model ZR-315 | 9,857,222 | 7,101,851 | 2,755,371 | 2,700,000 | 55,371 | Negotiation | Azgard Nine Limited |
| Vehicles | | | | | | | |
| Honda Civic Saloon LRD-467 | 1,266,447 | 1,003,307 | 263,140 | 785,000 | (521,860) | As per Group policy | Faisal Shahid Qureshi (Employee), Township, Lahore |
| Toyota Corolla LZD-8177 | 1,222,500 | 866,942 | 355,558 | 800,000 | (444,442) | As per Group policy | Muhammad Mumtaz (Employee), Mianwali |
| Suzuki Cultus LZW-8667 | 730,640 | 408,477 | 322,163 | 368,399 | (46,236) | As per Group policy | Muhammad Shahbaz Khan (Employee), Askari 10, Lahore |
| Suzuki Cultus LZV-2524 | 572,338 | 342,897 | 229,441 | 234,695 | (5,254) | As per Group policy | Jamshaid Akhtar (Employee), Tehsil Chunian, Kasur |
| Honda Civic Saloon LEA-2986 | 1,359,720 | 785,420 | 574,300 | 1,350,000 | (775,700) | Negotiation | Hassan Sharif (Ex-employee), Defence Housing Society, Lahore |
| Toyota Corolla 2.0D LRX-5550 | 1,215,730 | 888,284 | 327,446 | 815,000 | (487,554) | Negotiation | Umer Zameer, Lawrence Road, Lahore |
| Suzuki Cultus LEA-06-1248 | 608,120 | 352,914 | 255,206 | 600,000 | (344,794) | Negotiation | Farhat Mehmood, Qila Gujar Singh, Lahore |
| Suzuki Mehran | 398,770 | 152,273 | 246,497 | 250,000 | (3,503) | Insurance Claim | Adamjee Insurance Company Limited |
| Office equipment | | | | | | | |
| Blackberry curve 8900 | 24,000 | 400 | 23,600 | 22,000 | 1,600 | Negotiation | Hassan Sharif (Ex-employee), Defence Housing Society, Lahore |
| | 17,255,487 | 11,902,765 | 5,352,722 | 7,925,094 | (2,572,372) | | |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| 13.1.2 The depreciation charge for the year has been allocated as follows: | | |
| Cost of sales (Note 23) | 507,012,938 | 527,628,997 |
| Administrative expenses (Note 25) | 10,605,321 | 9,587,231 |
| Unallocated expenses | 947,311 | 498,084 |
| | 518,565,570 | 537,714,312 |

13.1.3 Amortization on intangible asset amounting to Rupees 395,700 (2009: Rupees 395,700) has been allocated to administrative expenses.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13.2 CAPITAL WORK IN PROGRESS** | | |
| Plant and machinery (Note 13.2.1) | 15,621,694,846 | 5,688,141,826 |
| Buildings | 191,864,500 | 45,004,941 |
| Electric installations | 2,535,539 | - |
| Mobilization advance | 2,188,766 | 303,015 |
| Letter of credit | 120,928,608 | - |
| Advance for purchase of assets | 6,094,079 | 2,378,387,385 |
| Unallocated expenses (Note 13.3) | 2,403,945,044 | 1,050,924,142 |
| | 18,349,251,382 | 9,162,761,309 |

13.2.1 It includes borrowing cost capitalized of Rupees 7.705 million using the capitalization rate of 9.7% per annum.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13.3 Unallocated expenses** | | |
| Raw material consumed (Note 13.3.1) | 1,409,700,618 | - |
| Spares consumed | 364,048 | - |
| Salaries and other benefits (Note 13.3.2) | 47,802,226 | 25,740,283 |
| Electricity consumed in-house | 8,034,830 | - |
| Insurance | 156,586,086 | 152,551,709 |
| Traveling and conveyance | 7,253,686 | 4,985,364 |
| Entertainment | 734,246 | 479,684 |
| Vehicle running and maintenance | 2,759,713 | 1,217,809 |
| Fuel and power | 571,022 | 416,872 |
| Postage and telephone | 1,349,661 | 236,681 |
| Printing and stationery | 1,263,362 | 299,907 |
| Advertisement | 153,998 | 56,403 |
| Legal and professional charges | 16,712,608 | 13,409,258 |
| Consultancy charges | 16,153,464 | 6,629,869 |
| Fee and subscription | 33,545,411 | 28,914,566 |
| Mark-up on long term financing | | |
| Long term financing (Note 13.3.3) | 2,530,178,940 | 678,059,343 |
| Short term financing (Note 13.3.4) | 29,757,330 | - |
| Bank charges and finance fee (Note 13.3.5) | 218,747,858 | 127,016,162 |
| Bank guarantee commission | 9,674,009 | 8,746,286 |
| Payment under O&M Agreement | 26,500,000 | - |
| Depreciation | 1,570,448 | 623,137 |
| Miscellaneous | 1,040,128 | 1,540,809 |
| | 4,520,453,692 | 1,050,924,142 |
| Sale of trial production (Note 13.3.6) | (1,494,773,577) | - |
| Scrap sales | (3,793,103) | - |
| Delay liquidated damages (Note 13.3.7) | (617,941,968) | - |
| | 2,403,945,044 | 1,050,924,142 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **13.3.1 RAW MATERIAL CONSUMED** | | |
| Opening balance as on 01 July | - | - |
| Add: Purchased during the year | 1,715,340,873 | - |
| Available for consumption | 1,715,340,873 | - |
| Less: Consumed during the year | 1,409,700,618 | - |
| Closing balance as on 30 June | 305,640,255 | - |

13.3.2 Salaries and other benefits include Rupees 0.868 million (2009: Rupees 0.556 million) in respect of provident fund contribution by Nishat Chunian Power Limited - Subsidiary Company.

13.3.3 Mark up on long term financing includes Rupees 437.686 million (2009: Rupees 117.707 million) and Rupees 586.163 million (2009: Rupees 157.635 million) which relates to National Bank of Pakistan - related party and Allied Bank Limited - related party respectively.

13.3.4 Mark up on short term borrowings includes Rupees 3.894 million (2009: Rupees Nil) and Rupees 1.831 million (2009: Rupees Nil) which relates to National Bank of Pakistan - related party and Allied Bank Limited - related party respectively.

13.3.5 Bank charges and financing fee includes Rupees 31.827 million (2009: Rupees 18.917 million) and Rupees 50.014 million (2009: Rupees 35.046 million) which relates to National Bank of Pakistan - related party and Allied Bank Limited - related party respectively.

13.3.6 It is exclusive of sales tax amounting to Rupees 239.164 million

13.3.7 This represents net liquidated damages recovered by the Nishat Chunain Power Limited - Subsidiary Company from Wartsila Pakistan (Private) Limited for delay in achieving commercial operations.

## 14. LONG TERM LOANS

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Considered good: | | |
| Executives (Note 14.1) | 2,232,750 | 976,542 |
| Other employees | 2,318,526 | 3,207,167 |
| | 4,551,276 | 4,183,709 |
| Less: Current portion shown under current assets (Note 18) | | |
| Executives | 713,879 | 384,708 |
| Other employees | 203,929 | 261,026 |
| | 917,808 | 645,734 |
| | 3,633,468 | 3,537,975 |

### 14.1 Reconciliation of carrying amount of loans to executives:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Opening balance as at 01 July | 976,542 | 8,469,671 |
| Disbursements | 2,388,573 | 1,678,203 |
| Less: Repayments | 1,132,365 | 8,427,611 |
| Transferred to loan and advances | - | 743,721 |
| Closing balance as at 30 June | 2,232,750 | 976,542 |

14.1.1 Maximum aggregate balance due from executives at the end of any month during the year is Rupees 3.058 million (2009: Rupees 9.236 million).

14.2 These represent car and personal loans to executives and employees, payable in 60 and 15 monthly installments respectively. Interest on long term loans ranged from 9.00 % to 13.50% per annum (2009: 9.00% to 13.50% per annum) while some loans are interest free. Car loans are secured against registration of cars in the name of the Company, whereas personal loan is secured against balance to the credit of employee in the provident fund trust.

14.3 The fair value adjustment in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' arising in respect of staff loans is not considered material and hence not recognized.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **15. STORES, SPARE PARTS AND LOOSE TOOLS** | | |
| Stores | 254,655,832 | 205,247,070 |
| Spare parts | 368,402,017 | 126,616,302 |
| Loose tools | 8,214,058 | 2,055,725 |
| | 631,271,907 | 333,919,097 |

15.1 Stores, spare parts and loose tools includes items which may result in fixed capital expenditure but are not distinguishable.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **16. STOCK-IN-TRADE** | | |
| Raw materials (Note 16.1) | 2,287,639,488 | 1,494,506,123 |
| Work in process | 466,561,040 | 304,749,505 |
| Finished goods - own produced (Notes 16.2 and 16.3) | 681,133,741 | 361,764,128 |
| Finished goods - trading stock | 75,612 | - |
| Waste | 36,816,119 | 22,083,974 |
| | 3,472,226,000 | 2,183,103,730 |

16.1 Raw materials include stock in transit of Rupees 14.023 (2009: Rupees 2.551 million).

16.2 Finished goods include stock in transit of Rupees 8.600 million (2009: Rupees Nil).

16.3 Finished goods include inventory of Rupees 4.560 million (2009: Rupees 2.940 million) valued at net realizable value.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **17. TRADE DEBTS** | | |
| Considered good: | | |
| Secured (Note 17.3) | 2,223,818,998 | 904,445,228 |
| Unsecured (Note 17.4) | 1,027,356,132 | 612,283,759 |
| | | - |
| | 3,251,175,130 | 1,516,728,987 |
| Considered doubtful: | | |
| Others - unsecured | - | 1,908,098 |
| Less: Provision for doubtful debts | | |
| As at 01 July | - | - |
| Bad debts written off against provision for the year | - | 1,908,098 |
| As at 30 June | - | 1,908,098 |
| | - | - |

17.1 As at 30 June 2010, trade debts of Rupees 37.086 million (2009 : Rupees 43.420 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Upto 1 month | 12,101,149 | 1,666,889 |
| 1 to 6 months | 1,230,916 | 7,217,067 |
| More than 6 months | 23,753,981 | 34,535,666 |
| | 37,086,046 | 43,419,622 |

17.2 As at 30 June 2010, trade debts of Rupees Nil (2009 : Rupees 1.908 million) were impaired and written off. The aging of trade debts written off during the year ended 30 June 2009 was more than three years.

17.3 It includes trade debts of Subsidiary Company (Nishat Chunian Power Limited) which are receivable from National Transmission and Dispatch Company Limited and are considered good. These are secured by a guarantee from the Government of Pakistan under the Implementation Agreement and are in the normal course of business and interest free, however, a penal markup at the rate of 3 months KIBOR plus 4.5% is charged in case the amounts are not paid within due dates.

17.4 Trade debts include Rupees Nil (2009: Rupees 0.051 million) due from Nishat Mills Limited - related party.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **18. LOANS AND ADVANCES** | | |
| Considered good: | | |
| Employees: | | |
| -Executives | 1,927,153 | 2,121,791 |
| -Other employees | 12,018,646 | 10,016,474 |
| | 13,945,799 | 12,138,265 |
| Current portion of long term loans (Note 14) | 917,808 | 645,734 |
| Advances to suppliers | 633,235,327 | 66,088,093 |
| Advances to contractors | 1,632,378 | 7,061,933 |
| Letters of credit | 120,946,177 | 287,763,719 |
| Recoverable from ex-executive on full and final settlement | - | 743,721 |
| Advance against expenses | 849 | 5,217 |
| Other advances | - | 91,818 |
| | 770,678,338 | 374,538,500 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **19. OTHER RECEIVABLES** | | |
| Sales tax recoverable | 239,754,737 | 79,514,671 |
| Advance income tax - net | 39,782,127 | 33,641,577 |
| Export rebate and claims | 52,288,029 | 11,401,176 |
| Research and development support receivable | - | 2,791,494 |
| Fair value of forward exchange contracts | 36,750,839 | 5,459,532 |
| Fair value of interest rate swap | - | 15,982,394 |
| Subsidy receivable against financing of import of spinning machinery | 1,772,954 | 5,943,260 |
| Receivable from provident fund trust | 2,217,433 | 750,942 |
| Delay liquidated damages | 106,610,061 | - |
| Insurance claim receivable | 4,500 | - |
| Others | 9,604,260 | 61,015,320 |
| | 488,784,940 | 216,500,366 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **20. SHORT TERM INVESTMENT** | | |
| Financial asset at fair value through profit or loss 1,281,585.1829 units of UBL Liquidity Plus Fund, an open - end money market fund (Note 20.1) | 131,226,152 | - |
| Add: Unrealized fair value gain | 664,086 | - |
| | 131,890,238 | - |

20.1 Fair value of this investment is determined using redemption price.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **21. CASH AND BANK BALANCES** | | |
| Cash with banks: | | |
| On PLS saving accounts (Note 21.1) Including US$ 12,107 (2009: US$ 3,840) | 1,581,710,383 | 4,993,077 |
| On current accounts (Note 21.2) Including US$ 89,782 (2009: US$ 73,063) | 68,540,346 | 27,004,248 |
| | 1,650,250,729 | 31,997,325 |
| Cash in hand | 1,746,181 | 2,181,383 |
| | 1,651,996,910 | 34,178,708 |

21.1 Rate of profit on bank deposits ranged from 5% to 11% (2009: 5%) per annum. Included therein is a balance of Rupees 20 million (2009: Rupees Nil) under lien with a bank against bank guarantee of the same amount issued by the bank to the Director, Excise and Taxation.

21.2 Included in cash at bank are Rupees 46.081 million (2009: Rupees 9.498 million) deposited with MCB Bank Limited - associated company.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **22. SALES** | | |
| Export | 9,944,828,677 | 6,288,427,221 |
| Local (Notes 22.1 and 22.2) | 3,300,659,812 | 3,664,102,751 |
| Export rebate | 29,941,970 | 12,015,499 |
| Duty draw back | 68,109,104 | - |
| | 13,343,539,563 | 9,964,545,471 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **22.1 Local sales** | | |
| Sales | 3,063,608,553 | 3,430,689,394 |
| Processing Income | 175,922,448 | 193,199,342 |
| Sale of electricity (Note 22.1.1) | 61,128,811 | 40,214,015 |
| | 3,300,659,812 | 3,664,102,751 |

22.1.1 Sale of electricity is exclusive of sales tax amounting to Rupees 9.781 million (2009: Rupees 6.032 million).

22.2 This includes sale of Rupees 674.477 million (2009: Rupees Nil) made to direct exporters against special purchase orders (SPOs). Further, local sales includes waste sales of Rupees 298.532 million (2009: Rupees 270.537 million).

## 23. COST OF SALES

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| Raw material consumed (Note 23.1) | 7,587,100,102 | 5,508,354,923 |
| Packing materials consumed | 348,818,362 | 264,564,347 |
| Stores, spare parts and loose tools consumed | 744,447,209 | 611,599,466 |
| Salaries, wages and other benefits (Note 23.2) | 758,442,203 | 634,677,628 |
| Fuel and power | 1,139,520,168 | 824,488,263 |
| Insurance | 23,378,632 | 27,202,583 |
| Postage and telephone | 368,045 | 416,526 |
| Traveling and conveyance | 8,754,219 | 7,116,335 |
| Vehicles' running and maintenance | 12,382,460 | 10,653,164 |
| Entertainment | 2,335,462 | 1,622,616 |
| Depreciation on operating assets (Note 13.1.2) | 507,012,938 | 527,628,997 |
| Repair and maintenance | 15,750,825 | 22,222,365 |
| Other factory overheads | 65,633,702 | 61,272,551 |
| | 11,213,944,327 | 8,501,819,764 |
| Work-in-process | | |
| Opening stock | 304,749,505 | 195,443,205 |
| Closing stock | (466,561,040) | (304,749,505) |
| | (161,811,535) | (109,306,300) |
| Cost of goods manufactured | 11,052,132,792 | 8,392,513,464 |
| Finished goods and waste - opening stocks | | |
| Finished goods | 361,764,128 | 421,026,976 |
| Waste | 22,083,974 | 25,100,317 |
| | 383,848,102 | 446,127,293 |
| | 11,435,980,894 | 8,838,640,757 |
| Finished goods and waste - closing stocks | | |
| Finished goods | (681,133,741) | (361,764,128) |
| Waste | (36,816,119) | (22,083,974) |
| | (717,949,860) | (383,848,102) |
| Cost of sales - own manufactured goods | 10,718,031,034 | 8,454,792,655 |
| Opening stock of purchased finished goods | - | 6,412,705 |
| Finished goods purchased | 13,736,487 | 12,156,882 |
| Closing stock of purchased finished goods | (75,612) | - |
| Cost of sales - purchased finished goods | 13,660,875 | 18,569,587 |
| | 10,731,691,909 | 8,473,362,242 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **23.1 Raw material consumed** | | |
| Opening stock | 1,494,506,123 | 1,799,479,746 |
| Add: Purchased during the year | 8,074,593,212 | 5,203,381,300 |
| | 9,569,099,335 | 7,002,861,046 |
| Less: Closing stock | 1,981,999,233 | 1,494,506,123 |
| | 7,587,100,102 | 5,508,354,923 |

23.2 Salaries, wages and other benefits include Rupees 5.421 million (2009: Rupees 7.503 million) and Rupees 17.258 million (2009: Rupees 15.635 million) in respect of accumulating compensated absences and provident fund contribution by the Group respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **24. DISTRIBUTION COST** | | |
| Salaries and other benefits (Note 24.1) | 26,494,976 | 23,722,407 |
| Ocean freight | 90,249,601 | 77,626,924 |
| Freight and octroi | 59,301,945 | 38,348,896 |
| Forwarding and other expenses | 20,235,480 | 15,177,380 |
| Export marketing expenses | 107,765,662 | 44,172,137 |
| Commission to selling agents | 134,313,049 | 92,751,273 |
| | 438,360,713 | 291,799,017 |

24.1 Salaries and other benefits include Rupees 0.882 million (2009: Rupees 0.479 million) and Rupees 1.336 million (2009: Rupees 1.193 million) in respect of accumulating compensated absences and provident fund contribution by the Group respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **25. ADMINISTRATIVE EXPENSES** | | |
| Salaries and other benefits (Note 25.1) | 49,433,217 | 50,754,438 |
| Printing and stationery | 5,471,299 | 1,949,161 |
| Vehicles' running and maintenance | 4,315,638 | 4,400,749 |
| Traveling and conveyance | 16,834,894 | 13,368,766 |
| Postage, telephone and telegraph | 5,049,821 | 4,519,281 |
| Fee and subscription | 2,852,491 | 1,860,622 |
| Legal and professional | 2,176,672 | 4,336,240 |
| Electricity and sui gas | 2,275,790 | 2,901,965 |
| Insurance | 2,485,705 | 2,468,418 |
| Repair and maintenance | 4,862,801 | 1,896,987 |
| Entertainment | 1,602,942 | 1,590,452 |
| Auditors' remuneration (Note 25.2) | 1,717,950 | 1,251,450 |
| Advertisement | 689,142 | 670,510 |
| Depreciation on operating assets (Note 13.1.2) | 10,605,321 | 9,587,231 |
| Amortization on intangible asset (Note 13.1.3) | 395,700 | 395,700 |
| Miscellaneous | 6,740,185 | 5,862,924 |
| | 117,509,568 | 107,814,894 |

25.1 Salaries and other benefits include Rupees 0.093 million (2009: Rupees 2.188 million) and Rupees 1.421 million (2009: Rupees 1.378 million) in respect of accumulating compensated absences and provident fund contribution by the Group respectively.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **25.2 Auditors' remuneration** | | |
| Audit fee | 1,250,000 | 850,000 |
| Half yearly review | 232,300 | 243,000 |
| Certification fees | 115,000 | 50,000 |
| Reimbursable expenses | 120,650 | 108,450 |
| | 1,717,950 | 1,251,450 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **26. OTHER OPERATING EXPENSES** | | |
| Workers' profit participation fund (Note 8.2) | 57,112,696 | 9,066,344 |
| Workers' welfare fund | 18,833,365 | 3,435,585 |
| Bad debts written off | - | 1,908,098 |
| Donations (Note 26.1) | 4,387,440 | 2,057,300 |
| | 80,333,501 | 16,467,327 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **26.1 Name of donee in which a director or his spouse has an interest:** | | |
| Mian Muhammad Yahya Trust, 31-Q, Gulberg II, Lahore Mr. Muhammad Saleem, Chairman of the Holding Company and Mr. Shahzad Saleem, Chief Executive of the Holding Company are trustees. | 4,387,440 | 2,057,300 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **27. OTHER OPERATING INCOME** | | |
| Income from financial assets | | |
| Return on bank deposits | 1,066,656 | 376,698 |
| Exchange gain - net | 141,725,791 | 152,679,402 |
| Unrealized fair value gain on revaluation of financial asset at fair value through profit or loss | 664,086 | - |
| Gain on redemption of financial asset at fair value through profit or loss | 1,390,810 | - |
| Markup on loan to executives | 57,988 | - |
| Income from non financial assets | | |
| Profit on sale of property, plant and equipment | 2,572,372 | 519,840 |
| Others | | |
| Sale of scrap | 30,527,554 | 17,978,809 |
| Miscellaneous | 913,551 | 1,678,552 |
| | 178,918,808 | 173,233,301 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **28. FINANCE COST** | | |
| Mark-up on: | | |
| - long term loans - net (Note 28.1) | 522,643,407 | 520,877,094 |
| - long term murabaha | 31,378,751 | - |
| - long term musharika | - | 40,457,397 |
| - short term running finances | 301,299,296 | 214,975,933 |
| - export finances - Preshipment / SBP refinances | 181,706,890 | 135,504,251 |
| - short term finances | 477,061 | 114,376,009 |
| Interest on workers' profit participation fund (Note 8.1) | 1,051,075 | 481,311 |
| Bank and other charges | 62,497,617 | 54,864,438 |
| | 1,101,054,097 | 1,081,536,433 |

28.1 This includes subsidy @ 3% amounting to Rupees 14.536 million (2009: Rupees 25.097 million) received / receivable from Government of Pakistan on mark up rates for financing of import of spinning machinery vide SRO No.973(I)/2007 dated 06 September 2007.

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **29. TAXATION** | | |
| Current - (Notes 29.1 and 29.2) | 138,551,985 | 65,000,000 |
| Prior year adjustment | (3,465,710) | - |
| | 135,086,275 | 65,000,000 |

29.1 The Nishat (Chunian) Limited - Holding Company falls under the ambit of presumptive tax regime under section 169 of the Income Tax Ordinance, 2001. Provision for income tax is made accordingly. No temporary differences are expected to arise in the foreseeable future except for deferred tax liability as explained in note 6. Reconciliation of tax expense and product of accounting profit multiplied by the applicable tax rate is not required in view of presumptive taxation.

29.2 The income of Nishat Chunian Power Limited - Subsidiary Company is exempt from tax subject to conditions and limitations provided in clause (132), Part I of the Second Schedule to the Income Tax Ordinance, 2001. However, provision is made in profit and loss account on income from sources not covered under the aforesaid clause.

| | 2010 | 2009 |
|---|---|---|
| **30. EARNINGS PER SHARE** | | |
| Basic | | |
| Profit after taxation (Rupees) | 921,695,058 | 102,107,816 |
| Less: Preference dividend (Rupees) | 10,333,766 | 5,269,209 |
| Profit after taxation attributable to ordinary shareholders (Rupees) | 911,361,292 | 96,838,607 |
| Weighted average number of ordinary shares outstanding during the year | 116,758,568 | 82,720,922 |
| Earnings per share - basic (Rupees) | 7.81 | 1.17 |
| Diluted | | |
| Profit after taxation (Rupees) | 921,695,058 | 102,107,816 |
| Weighted average number of ordinary shares outstanding during the year | 116,758,568 | 82,720,922 |
| Impact of dilutive potential preference shares | 35,300,088 | 41,360,461 |
| | 152,058,656 | 124,081,383 |
| Earnings per share - diluted (Rupees) | 6.06 | 0.82 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **31. CASH (USED IN) / GENERATED FROM OPERATIONS** | | |
| Profit before taxation | 1,053,508,583 | 166,798,859 |
| Adjustment for non cash charges and other items: | | |
| Depreciation on operating assets | 518,565,570 | 537,714,312 |
| Amortization on intangible asset | 395,700 | 395,700 |
| Gain on sale of property, plant and equipment | (2,572,372) | (519,841) |
| Finance cost | 1,101,054,097 | 1,081,536,433 |
| Unrealized fair value gain on revaluation of financial asset at fair value through profit or loss | (664,086) | - |
| Working capital changes (Note 31.1) | (2,916,646,963) | (207,357,194) |
| | (246,359,471) | 1,578,568,269 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **31.1 Working capital changes** | | |
| (Increase) / decrease in current assets: | | |
| Stores, spare parts and loose tools | (297,352,810) | (26,822,443) |
| Stock-in-trade | (1,289,122,270) | 264,359,219 |
| Trade debts | (1,734,446,143) | (205,390,833) |
| Loans and advances | (396,139,838) | (260,123,922) |
| Short term prepayments | 293,020 | 449,097 |
| Other receivables | (270,579,030) | (50,338,327) |
| | (3,987,347,070) | (277,867,209) |
| Increase in current liabilities: | | |
| Trade and other payables | 1,070,700,108 | 70,510,015 |
| | (2,916,646,963) | (207,357,194) |

## 32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

The aggregate amount charged in the consolidated financial statements for the year for remuneration including certain benefits to the chief executive, director and executives of the Holding Company is as follows:

| | Director | | Executives | |
|---|---|---|---|---|
| | 2010 Rupees | 2009 Rupees | 2010 Rupees | 2009 Rupees |
| Managerial remuneration | 1,600,080 | 1,600,080 | 25,093,254 | 21,705,004 |
| Contribution to provident fund | - | - | 2,090,268 | 1,808,027 |
| House rent | 639,840 | 639,912 | 10,034,291 | 8,681,728 |
| Utilities | 160,008 | 160,008 | 2,510,455 | 2,170,318 |
| Others | 445,440 | 572,724 | 2,222,869 | 563,175 |
| | 2,845,368 | 2,972,724 | 41,951,137 | 34,928,252 |
| Number of persons | 1 | 1 | 24 | 23 |

32.1 The Holding Company also provides to chief executive, directors and certain executives with free use of Company maintained cars and residential telephones.

## 33. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, other related companies, key management personnel and post employment benefit plan. The Group in the normal course of business carried out transactions with various related parties. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these consolidated financial statements are as follows:

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **Associated company** | | |
| Share issuance cost | 753,538 | - |
| **Other related party** | | |
| Purchase of goods | 186,823,098 | 107,532,958 |
| Sales of goods | 173,931,069 | 128,241,936 |
| Preference dividend paid | 1,212,320 | - |
| Share issuance cost | 1,654,366 | - |
| **Post employment benefit plan** | | |
| Expense charged in respect of retirement benefit plan | 20,883,221 | 18,761,549 |

## 34. SEGMENT INFORMATION

| | Spinning | | Weaving | | Processing and Home Textile | | Captive Power | | 'Elimination of inter-segment transactions | | Total - Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | Rupees | | | | | | | | | | | |
| Sales | 9,163,604,665 | 6,950,569,044 | 4,226,875,781 | 3,564,777,768 | 4,640,699,225 | 2,227,146,718 | 1,020,213,370 | 900,624,434 | (5,707,853,478) | (3,678,572,493) | 13,343,539,563 | 9,964,545,471 |
| Cost of sales | (7,296,062,409) | (6,318,228,878) | (3,893,145,807) | (3,067,607,510) | (4,237,455,961) | (1,880,260,555) | (1,012,881,210) | (885,837,792) | 5,707,853,478 | 3,678,572,493 | (10,731,691,909) | (8,473,362,242) |
| Gross profit | 1,867,542,256 | 632,340,166 | 333,729,974 | 497,170,258 | 403,243,264 | 346,886,163 | 7,332,160 | 14,786,642 | - | - | 2,611,847,654 | 1,491,183,229 |
| Distribution cost | (210,665,963) | (133,008,492) | (55,979,317) | (93,619,714) | (171,715,433) | (65,170,811) | - | - | - | - | (438,360,713) | (291,799,017) |
| Administrative expenses | (61,457,814) | (57,643,137) | (23,681,643) | (21,940,958) | (21,580,399) | (20,302,144) | (10,789,712) | (7,928,655) | - | - | 117,509,568) | (107,814,894) |
| | (272,123,777) | (190,651,629) | (79,660,960) | (115,560,672) | (193,295,832) | (85,472,955) | (10,789,712) | (7,928,655) | - | - | (555,870,281) | (399,613,911) |
| Profit / (loss) before taxation and unallocated income and expenses | 1,595,418,479 | 441,688,537 | 254,069,014 | 381,609,586 | 209,947,432 | 261,413,208 | (3,457,552) | 6,857,987 | - | - | 2,055,977,373 | 1,091,569,318 |
| Unallocated income and expenses | | | | | | | | | | | | |
| Other operating expenses | | | | | | | | | | | (80,333,501) | (16,467,327) |
| Other operating income | | | | | | | | | | | 178,918,808 | 173,233,301 |
| Finance cost | | | | | | | | | | | (1,101,054,097) | (1,081,536,433) |
| Provision for taxation | | | | | | | | | | | (135,086,275) | (65,000,000) |
| Profit after taxation | | | | | | | | | | | 918,422,308 | 101,798,859 |

### 34.1 Reconciliation of reportable segment assets and liabilities

| | Spinning | | Weaving | | Processing and Home Textile | | Captive Power | | Total - Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | Rupees | | | | | | | | | |
| Total assets for reportable segments | 5,199,831,298 | 4,823,457,315 | 1,560,731,297 | 1,699,595,124 | 2,572,181,675 | 2,051,683,686 | 21,051,694,301 | 10,014,459,184 | 30,384,438,571 | 18,589,195,309 |
| Unallocated assets: | | | | | | | | | | |
| Other receivables | | | | | | | | | 488,784,940 | 216,500,366 |
| Cash and bank balances | | | | | | | | | 1,651,996,910 | 34,178,708 |
| Other corporate assets | | | | | | | | | 1,904,923,766 | 969,570,458 |
| Total assets as per consolidated balance sheet | | | | | | | | | 34,430,144,187 | 19,809,444,841 |
| Total liabilities for reportable segments | 33,850,750 | 19,960,485 | 84,685,052 | 49,091,987 | 27,467,267 | 7,089,903 | 76,292,193 | 1,342,240.00 | 222,295,262 | 77,484,615 |
| Unallocated liabilities: | | | | | | | | | | |
| Deferred tax | | | | | | | | | - | 1,552,252 |
| Other corporate liabilities | | | | | | | | | 28,254,772, | 16,270,771,726 |
| Total liabilities as per consolidated balance sheet | | | | | | | | | 28,477,067,495 | 16,349,808,593 |

| | 2010 Rupees | 2009 Rupees |
|---|---|---|
| **34.2 Geographical information** | | |
| The Group's revenue from external customers by geographical location is detailed below: | | |
| Europe | 1,766,969,077 | 809,083,720 |
| Asia, Africa and Australia | 4,817,572,829 | 3,076,253,708 |
| United States of America and Canada | 3,458,337,845 | 2,415,105,292 |
| Pakistan | 3,300,659,812 | 3,664,102,751 |
| | 13,343,539,563 | 9,964,545,471 |

34.3 All non-current assets of the Group as at reporting dates are located and operating in Pakistan.

### 34.4 Revenue from major customers

Nishat Chunian Power Limited - Subsidiary Company sells electricity only to NTDCL. However, revenue from transactions with a single external customer of the Processing and Home Textile business segment of the Group amounted to Rupees 2,469.177 million (2009: Rupees 1,165.860 million).

## 35. PLANT CAPACITY AND ACTUAL PRODUCTION

| | 2010 | 2009 |
|---|---|---|
| **35.1 Nishat (Chunian) Limited - Holding Company** | | |
| Spinning | | |
| Number of spindles installed | 147,926 | 148,357 |
| Number of spindles worked | 141,949 | 139,008 |
| Number of shifts per day | 3 | 3 |
| Capacity after conversion into 20/1 count (Kgs.) | 50,948,536 | 49,507,139 |
| Actual production of yarn after conversion into 20/1 count (Kgs.) | 50,225,855 | 48,775,505 |

Under utilization of available capacity was due to normal maintenance and time lost in shifting of coarser counts to finer counts and vice versa.

| | 2010 | 2009 |
|---|---|---|
| Weaving | | |
| Number of looms installed | 293 | 293 |
| Number of looms worked | 293 | 293 |
| Number of shifts per day | 3 | 3 |
| Capacity after conversion into 50 picks - square yards | 215,512,868 | 182,694,493 |
| Actual production after conversion into 50 picks - square yards | 214,588,988 | 177,425,527 |

Capacity has been revised during the year in view of higher actual production during the year as compared to last year's capacity figure. This was mainly due to increase in machine speed due to lower average count and due to utilization of machines in two to three panels.

Under utilization of available capacity was due to the following reasons:

- change of articles required
- higher count and cover factor
- due to normal maintenance

| | 2010 | 2009 |
|---|---|---|
| **Power Plant** | | |
| Number of engines installed | 10 | 10 |
| Number of engines worked | 10 | 10 |
| Number of shifts per day | 3 | 3 |
| Generation capacity (KWh) | 317,698,920 | 317,698,920 |
| Actual generation (KWh) | 172,357,094 | 179,605,840 |

Under utilization of available capacity was due to normal maintenance.

| | 2010 | 2009 |
|---|---|---|
| **Dyeing** | | |
| Number of thermosol dyeing machines | 1 | 1 |
| Number of stenters machines | 2 | 2 |
| Number of shifts per day | 3 | 3 |
| Capacity in meters | 26,400,000 | 26,400,000 |
| Actual processing of fabrics - meters | 25,522,831 | 18,526,893 |

Under utilization of available capacity was due to low demand and normal maintenance.

| | 2010 | 2009 |
|---|---|---|
| **Stitching** | | |
| Number of stitching machines | 240 | 240 |
| Number of shifts per day | 1 | 1 |
| Capacity in meters | 16,800,000 | 16,800,000 |
| Actual stitching of fabrics - meters | 10,406,322 | 5,045,555 |

Under utilization of available capacity was due to low demand.

### 35.2 Nishat Chunian Power Limited - Subsidiary Company

The gross capacity of fuel fired power station is 200 MW ISO. The Subsidiary Company started commercial operations after the reporting date.

## 36. FINANCIAL RISK MANAGEMENT

### 36.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance departments of the Holding Company and Subsidiary Company under policies approved by the respective Board of Directors. The Companies' finance departments evaluates and hedges financial risks. The Board of each respective Group Company provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Euro. Currently, the Group's foreign exchange risk exposure is restricted to bank balances and the amounts receivable / payable from / to the foreign entities. The Group uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Group's exposure to currency risk was as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash at banks - USD | 101,889 | 76,903 |
| Trade debts - USD | 13,935,801 | 15,425,686 |
| Other receivable - EURO | 993,570 | - |
| Trade and other payable - USD | 2,553,070 | 744,149 |
| Trade and other payable - EURO | 5,872,900 | - |
| Short term borrowings as FE 25 import / export loans-USD | 1,476,190 | 9,133,236 |
| Accrued mark-up on FE 25 import / export loans-USD | 6,460 | 73,222 |
| Net exposure - USD | 10,001,970 | 5,551,982 |
| Net exposure - EURO | (4,879,330) | - |
| The following significant exchange rates were applied during the year: | | |
| Rupees per US Dollar | | |
| Average rate | 84.27 | 78.23 |
| Reporting date rate | 85.60 | 81.10 |
| Rupees per Euro | | |
| Average rate | 116.24 | 108.00 |
| Reporting date rate | 104.58 | 114.82 |

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD and Euro with all other variables held constant, profit after taxation for the year would have been higher / lower by Rupees 39.229 million (2009: Rupees 20.937 million) and lower or higher by Rupees 25.514 million (2009: Rupees Nil) respectively, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate:

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Group is not exposed to equity and commodity price risk.

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no significant long-term interest-bearing assets. The Group's interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Group to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Group’s interest bearing financial instruments was:

| | 2010<br>Rupees | 2009<br>Rupees |
|---|---|---|
| Fixed rate instruments | | |
| Financial liabilities | | |
| Long term financing | 600,860,872 | 809,732,535 |
| Short term borrowings | 3,238,389,484 | 2,022,532,124 |
| Floating rate instruments | | |
| Financial assets | | |
| Bank balances - saving accounts | 1,581,710,383 | 4,993,077 |
| Financial liabilities | | |
| Long term financing | 19,073,725,395 | 11,165,864,675 |
| Short term borrowings | 3,254,350,165 | 1,478,045,917 |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Group.

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 47.246 million (2009: Rupees 50.274 million) lower / higher and capital work-in-progress would have been Rupees 156.660 million (2009 : Rupees 71.847 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | 2010<br>Rupees | 2009<br>Rupees |
|---|---|---|
| Loans and advances | 18,497,075 | 17,157,513 |
| Deposits | 1,200,442 | 1,187,942 |
| Trade debts | 3,251,175,130 | 1,516,728,987 |
| Other receivables | 152,969,660 | 82,457,246 |
| Short term investment | 131,890,238 | - |
| Bank balances | 1,650,250,729 | 31,997,325 |
| | 5,205,983,274 | 1,649,529,013 |

| | Rating | | | 2010 Rupees | 2009 Rupees |
|---|---|---|---|---|---|
| | Short term | Long term | Agency | | |
| **Banks** | | | | | |
| National Bank of Pakistan | A1+ | AAA | JCR-VIS | 4,792 | - |
| Askari Bank Limited | A1+ | AA | PACRA | 20,066,947 | 644,845 |
| The Royal Bank of Scotland Limited | A1+ | AA | PACRA | 571,630 | 10,488,038 |
| Atlas Bank Limited | A2 | A- | PACRA | 14,631 | 4,800 |
| Bank Alfalah Limited | A1+ | AA | PACRA | 625,899 | 215,212 |
| The Bank of Punjab | A1+ | AA - | PACRA | 1,106 | 25,136 |
| Bank Islami (Pakistan) Limited | A1 | A | PACRA | 1,283,826 | 5,500 |
| Citibank N.A. | P-1 | A1 | Moody's | 224,203 | 2,159 |
| Dubai Islamic Bank (Pakistan) Limited | A-1 | A | JCR-VIS | 553,521 | 78,596 |
| Dawood Islamic Bank Limited | A-3 | BBB+ | JCR-VIS | 3 | 4,346 |
| Faysal Bank Limited | A-1+ | AA | JCR-VIS | 4,035,548 | 46,391 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | 417,496 | 96,735 |
| Habib Metropolitan Bank Limited | A1+ | AA+ | PACRA | 171 | 20 |
| HSBC Bank Middle East Limited | F1+ | AA- | Fitch | 7,288,887 | 479,023 |
| Meezan Bank Limited | A-1 | AA- | JCR-VIS | 23,430 | 460,349 |
| MCB Bank Limited | A1+ | AA+ | PACRA | 46,080,744 | 9,498,375 |
| NIB Bank Limited | A1+ | AA - | PACRA | 7,831,769 | 546,299 |
| Standard Chartered Bank (Pakistan) Limited | A1+ | AAA | PACRA | 463,318 | 461,804 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | 1,560,762,808 | 8,939,697 |
| | | | | 1,650,250,729 | 31,997,325 |

The Group's exposure to credit risk and impairment losses related to trade debts is disclosed in Note 17.

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Group. Accordingly the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Group had Rupees 2,882 million available borrowing limits from financial institutions and Rupees 1,652 million cash and bank balances. Inspite the fact that the Group is in a negative working capital position at the year end, management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2010:

| | Carrying Amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | | | |
| Long term financing | 19,674,586,267 | 37,163,352,949 | 2,436,122,523 | 2,371,963,961 | 4,494,026,048 | 27,861,240,417 |
| Short term borrowings | 6,492,739,649 | 6,852,938,824 | 5,714,794,452 | 1,138,144,372 | - | - |
| Trade and other payables | 1,391,045,658 | 1,391,045,658 | 1,391,045,658 | - | - | - |
| Accrued markup | 776,990,805 | 776,990,805 | 776,990,805 | - | - | - |
| | 28,335,362,379 | 46,184,328,236 | 10,318,953,438 | 3,510,108,333 | 4,494,026,048 | 27,861,240,417 |

Contractual maturities of financial liabilities as at 30 June 2009:

| | Carrying Amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | | | |
| Long term financing | 11,975,597,210 | 20,442,358,021 | 1,634,951,169 | 1,655,333,211 | 3,135,950,877 | 14,016,122,764 |
| Short term borrowings | 3,500,578,041 | 4,803,508,544 | 3,610,594,486 | 1,192,914,058 | - | - |
| Trade and other payables | 411,188,317 | 411,188,317 | 411,188,317 | - | - | - |
| Accrued markup | 412,461,194 | 412,461,194 | 412,461,194 | - | - | - |
| | 16,299,824,762 | 26,069,516,076 | 6,069,195,166 | 2,848,247,269 | 3,135,950,877 | 14,016,122,764 |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 6 and note 10 to these consolidated financial statements.

## 36.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in consolidated financial statements approximate their fair values. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to levels 1 to 3 based on the degree to which fair value is observable:

| | Level 1 | Level 2 | Level 3 | Level 4 |
|---|---|---|---|---|
| As at 30 June 2010 | ------------------Rupees------------------ | | | |
| Assets | | | | |
| Short term investment | 131,890,238 | - | - | 131,890,238 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the Group is the current bid price. These financial instruments are classified under level 1 in above referred table.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2 in above referred table. The Group has no such type of financial instruments as on 30 June 2010.

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3.The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The Group has no such type of financial instruments as on 30 June 2010.

| | At fair value through profit or loss | Loans and receivables | Total |
|---|---|---|---|
| | ------------------------Rupees------------------------ | | |
| As at 30 June 2010 | | | |
| Assets as per balance sheet | | | |
| Short term investment | 131,890,238 | - | 131,890,238 |
| Loans and advances | - | 18,497,075 | 18,497,075 |
| Deposits | - | 1,200,442 | 1,200,442 |
| Trade debts | - | 3,251,175,130 | 3,251,175,130 |
| Other receivables | - | 152,969,660 | 152,969,660 |
| Cash and bank balances | - | 1,651,996,910 | 1,651,996,910 |
| | 131,890,238 | 5,075,839,217 | 5,207,729,455 |

### 36.3 Financial instruments by categories

| | Financial liabilities at amortized cost |
|---|---|
| Liabilities as per balance sheet | Rupees |
| Long term financing | 19,674,586,267 |
| Accrued mark-up | 776,990,805 |
| Short term borrowings | 6,492,739,649 |
| Trade and other payables | 1,391,045,658 |
| | 28,335,362,379 |

As at 30 June 2009

| | Loans and receivables |
|---|---|
| Assets as per balance sheet | Rupees |
| Loans and advances | 17,157,513 |
| Deposits | 1,187,942 |
| Trade debts | 1,516,728,987 |
| Other receivables | 82,457,246 |
| Cash and bank balances | 34,178,708 |
| | 1,651,710,396 |

| | Financial liabilities at amortized cost |
|---|---|
| Liabilities as per balance sheet | Rupees |
| Long term financing | 11,975,597,210 |
| Accrued mark-up | 412,461,194 |
| Short term borrowings | 3,500,578,041 |
| Trade and other payables | 411,188,317 |
| | 16,299,824,762 |

## 37. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Group monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term financing and short term borrowings obtained by the Group as referred to in note 6 and 10 respectively. Total capital employed includes 'total equity' as shown in the balance sheet plus 'borrowings'. The Group's Strategy, which was unchanged from last year, was to maintain a gearing ratio of 75% debt and 25% equity.

| | | 2010 | 2009 |
|---|---|---|---|
| Borrowings | Rupees | 26,167,325,916 | 15,476,175,251 |
| Total equity | Rupees | 5,953,076,692 | 3,459,636,248 |
| Total capital employed | Rupees | 32,120,402,608 | 18,935,811,499 |
| Gearing ratio | Percentage | 81.47 | 81.73 |

## 38. UNUTILIZED CREDIT FACILITIES

The Group has total credit facilities amounting to Rupees 25,160 million (2009 : Rupees 20,810 million) out of which Rupees 2,882 million (2009: Rupees 10,224 million) remained unutilized at the end of the year.

## 39. EVENTS AFTER THE REPORTING PERIOD

39.1 The Board of Directors of the Holding Company has proposed a cash dividend for the year ended 30 June 2010 of Rupees1.50 per ordinary share (2009: Rupees Nil per ordinary share) at their meeting held on 8 October 2010. Moreover, 15% (2009: 15%) preference dividend has been proposed by the Board of Directors of Holding Company for payment after approval in forthcoming Annual General Meeting, in accordance with the approved terms and conditions of preference share issue.

39.2 The Subsidiary Company commenced commercial operations from 21 July 2010.

## 40. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue on 8 October 2010 by the Board of Directors of the Holding Company.

## 41. CORRESPONDING FIGURES

Corresponding figures have been rearranged / regrouped wherever necessary for the purpose of comparison. However, no significant rearrangements / regroupings have been made.

## 42. GENERAL

Figures have been rounded off to nearest of Rupee.

CHIEF EXECUTIVE

DIRECTOR

# Proxy Form

The Company Secretary,
Nishat (Chunian) Limited
31-Q, Gulberg-II,
Lahore.

I / We ______________________________________________

of ______________________________________________ being a member(s) of

Nishat (Chunian) Limited, and a holder of ______________________________ Ordinary shares

as per Share Register Folio No. ______________________________

(in case of Central Depository System Account Holder A/c No. ______________________________

Participant I.D. No. ______________________ ) hereby appoint ______________________

of ______________________________________ another member of the Company as per

Share Register Folio No. ______________________ (or failing him / her ______________________

of ______________________________ another member of the Company) as my / our Proxy to attend and vote for me / us and on my / our behalf at Annual General Meeting of the Company, to be held on 30 October 2010 (Saturday) at 11:30 a.m at the Registered Office of the Company (31-Q, Gulberg II, Lahore) and at any adjournment thereof.

As witness my hand this ______________________ day of ______________________ 2010

signed by the said ______________________________________ in presence

of ______________________________________________

Witness

Signature

Signature

| |
|---|
| Affix Rs. 5/- Revenue Stamp |

Notes:

1. Proxies, in order to be effective, must be received at the Company's Registered Office / Head Office not less than 48 hours before the meeting duly stamped, signed and witnessed.

2. Signature must agree with the specimen signature registered with the Company.