



ANNUAL REPORT

2010

Chakwal Spinning Mills Limited

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COMPANY INFORMATION

BOARD OF DIRECTORS

Khawaja Mohammad Jahangir (Chief Executive)
Khawaja Mohammad Jawed
Khawaja Mohammad Tanveer
Khawaja Mohammad Kaleem
Khawaja Mohammad Nadeem
Khawaja Mohammad Naveed
Mr. Mohammad Aman

AUDIT COMMITTEE

Khawaja Mohammad Kaleem (Chairman)
Khawaja Mohammad Nadeem
Khawaja Mohammad Naveed

CORPORATE SECRETARY

Mr. Muhammad Jahangir Khan BA (LLB), MBA, DTL, ACIS

CHIEF FINANCIAL OFFICER

Mr. Muhammad Ashraf (ACMA)

BANKERS

Metropolitan Bank Limited
KASB Bank Limited
Allied Bank of Pakistan
National Bank of Pakistan
Askari Commercial Bank
MCB Bank Limited
Standard Chartered Bank Limited
Silk Bank Limited

AUDITORS

M/s. Hameed Khan & Company
Chartered Accountants
16-A, Link Farid Kot Road,
Near A.G. Office, Lahore.

CORPORATE & SHARES DEPARTMENT

31-F, Main Market, Gulberg-II, Lahore
Tel : (042) 5755774
Fax : (042) 5755760

REGISTERED OFFICE

Kashana-e-Yousaf
Khawaja Street, Chakwal
Tel : (0543) 644254 - 644281

MILLS

49-Kilometer
Multan Road, Bhai Phero
Tel : (04943) 540083-4

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 23rd Annual General Meeting of **CHAKWAL SPINNING MILLS LIMITED** will be held on Saturday, October 30, 2010 at 09:00 a.m. at the premises of Kohinoor Spinning Mills Limited, Unit No. 1, Pindi Road, Aminabad, Chakwal to transact the following business:-

ORDINARY BUSINESS:

1. To confirm the minutes of Extraordinary General Meeting held on March 04, 2010.
2. To receive and adopt the audited accounts of the Company for the year ended June 30, 2010 together with the reports of directors and auditors thereon.
3. To approve payment of cash dividend at the rate of Rs.0.50 per share of Rs.10/- i.e. 5% for the year ended June 30, 2010 as recommended by the Board.
4. To appoint auditors for the year ending June 30, 2011 and to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and approve the increase remuneration of Working Director of the company not exceeding in aggregate of Rs.300,000/- per month. If approved by the shareholders, the Chief Executive may be authorized to provide these facilities to the Working Directors.
6. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

Lahore:
October 08, 2010

MUHAMMAD JAHANGIR KHAN
Company Secretary

NOTES:

1. The share transfer books of the Company will remain closed from October 22, 2010 to October 30, 2010 (both days inclusive).
2. A member entitled to attend the meeting may appoint another member as his/her proxy to attend the meeting of him/her behalf. Proxies in order to be effective must be received by the Company not later than 48 hours before the meeting.
3. The beneficial owner of the shares of the company in the central depository system of the CDC or his/her proxy entitled to attend this meeting shall produce his/her original CNIC or passport to prove the identity. CDC Account Holders will further have to follow the guidelines as laid down in Circular No. 1 dated 26 January 2000 issued by the Securities and Exchange Commission of Pakistan.
4. Shareholders are requested to immediately notify the change in their address, if any, and also send copy of CNIC as pursuant to the amendments made in clause (9), Table A, First Schedule and format of Form-A provided in Third Schedule of the Companies Ordinance, 1984, (the "Ordinance") vide S.R.O. 286(I)2005 dated March 31, 2005, it was made mandatory to provide CNIC number of every transferor and the witness for transfer of shares and CNIC number of every director, member and debenture holder for filing annual return of company having shareholdings to our share registrar M/s Corplink (Pvt) Limited, Wings Arcade, 1-K, Commercial, Model Town, Lahore. Tel. 042-5839182.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of your company are pleased to present before you the audited accounts for the year ended June 30, 2010.

Results during the year under review remained very encouraging and company has shown a substantial improvement. Net sales were at Rs.1,352.24 million as compared to Rs.989.845 million during last year which shows an increase of 36.6%. The company earned a pre-tax profit of Rs.79.600 million during the year under review as compared to pre-tax loss of Rs.47.413 million for last year. Net profit for the year remained at Rs.61.096 as compared to net loss of Rs.45.194 million during last year. Administrative expenses and finance cost were also kept strictly under control.

The factors contributed in improvement coupled with the efforts of the management include global economic environment which considerably increased demand of yarn in international market. The probable future increase in cotton prices as well as inventory building for next season, demand of retail-ready finished goods together resulted increase in yarn prices. Domestic retail prices in China and India also played a major role in keeping yarn prices high both in international as well as in local market. On the other hand, unprecedented rise in raw material prices has also translated in the increase of price of yarn. Cotton price is being spurred by a medley of factors, including price hike at international level, decline in Indian cotton produce and absence of government ban on cotton exports.

Textile spinning sector is the largest industrial sector in Pakistan, already striving its very survival was hit hard by imposition of quota of 50,000 tons and was further reduced to 35,000 tones on yarn export which pushed the industry into crises. Accepting the demand of value added sector, the Government imposed 15% regulatory duty on export of yarn which further cornered the industry. The spinning sector is not getting any subsidies or support from the Government and expect that free market mechanism should not be interfered.

The production target for the year 2010-2011 was set at 14 million bales but at present production of 11 million bales is expected. Due to deadly flash of floods that swept across the lands of the country may miss the cotton production target by 3 million bales for the year 2010-2011. Severe crises of electricity and natural gas which are further aggravating, increasing lending rates and current economic conditions prevailing in the country may hamper the performance of spinning industry.

The directors are fully aware of state of affairs of the company and are making strenuous efforts to improve performance of the company through increased productivity, cost control and by devising optimal production strategies. The directors are confident to overcome challenges being faced, to convert weakness and threats into strengths and opportunities.

The directors of the company are pleased to recommend the cash dividend of 5% to minority shareholders for the year ended June 30, 2010.

Corporate & Financial Reporting Framework:

We are pleased to report that your company has taken necessary steps to comply with the provisions of Code of Corporate Governance as incorporated in the listing regulations of the Stock Exchanges:

- The financial statements for the year ended June 30, 2010 present fairly its state of affairs, the results of its operations, cash flows and changes in equity;
- Proper books of account of the company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;

- ii International Accounting Standards (IAS) as applicable in Pakistan has been followed in preparation of financial statements; and departure if any has been adequately disclosed.
- iii The system of internal control is sound in design. The process of monitoring will continue and control strengthened where ever considered necessary;
- iv There are no significant doubts upon the company's ability to continue as a going concern;
- v There has been no material departure from the best practices of corporate governance as detailed in listing regulations;
- vi The key financial data of last six years is annexed;
- vii There are no outstanding statutory payments on accounts of taxes, duties, levies or charges except those reflected in the audited accounts.
- viii The company operated an un-funded and unapproved gratuity scheme. Provision is made annually to cover the obligations under the scheme. The latest actuarial valuation has been carried out as at June 30, 2010.
- ix During the period under review six board meetings were held and the attendance of each Director was as under:

<u>Name of Directors</u>	<u>No. of Board Meetings Attended</u>
Khawaja Mohammad Jawed	6
Khawaja Mohammad Jahangir	6
Khawaja Mohammad Tanveer	6
Khawaja Mohammad Kaleem	6
Khawaja Mohammad Nadeem	6
Khawaja Mohammad Naveed	6
Mr. Mohammad Aman	6

(The Board granted leave of absence to the directors who could not attend the meetings due to their pre-occupation.)

The pattern of shareholding as on 30-06-2010 and its disclosure as required in the Code of Corporate Governance is annexed with this report;

Auditors

The auditors of the Company Messrs. Hameed Khan & Co., Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Audit Committee has recommended re-appointment of the same auditors.

Acknowledgement

Your directors wish to place on record their deep appreciation for the true efforts of the executives, officers, staff members and workers of the company in achieving the best possible results. They also thanks its shareholders, customers, banks and financial institutions for their continued support extended by them in smooth running of company's operations and hope that their cooperation will be continued with the same spirit in the years to come.

For and on behalf of the Board



Khawaja Mohammad Jahangir
Chief Executive

Lahore :
October 08, 2010

Statement of Compliance with Code of Corporate Governance

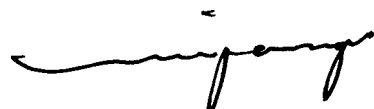
This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi & Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

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

1. It is confirmed that none of the directors is serving as a director in more than ten listed companies, including this company.
2. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
3. No casual vacancy occurred in the Board during the year ended June 30, 2010.
4. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
5. The Board has developed a vision statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies alongwith the date on which these were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The remuneration payable to Chief Executive was approved by the shareholders in Annual General Meeting.
7. The meetings of the Board were presided over by the Chief Executive and the Board met four times during the year ended June 30, 2010. Written notices of the Board meetings, alongwith agenda were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
8. All the Directors on the Board are fully conversant with their duties and responsibilities as Director of corporate bodies. The Chief Executive recommends that the members of the Board should approach him, should they feel any necessity to conduct other orientation courses in this regard.
9. The Board approved appointment of Chief Financial Officer and his remuneration. In future appointments of Chief Financial Officer, Company Secretary and Internal Auditor, their remuneration and terms & conditions will be approved by the Board as determined by CEO.
10. The directors' report for the year ended June 30, 2010 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.

13. The Board has formed an Audit Committee. It comprises three members; all the members are non-executive directors including the Chairman of the Committee.
14. The meetings of the Audit Committee were held prior to approval of interim and final results of the Company and as required by the Code. The terms of references of the committee have been formed and advised to the committee for compliance.
15. The Board has set up an effective internal audit function.
16. The statutory auditors of the company have confirmed that they have been given satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants.
17. 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.
18. We confirm that all other material principles contained in the Code have been complied with.

Lahore:
October 08, 2010



(Khawaja Mohammad Jahangir)
Chief Executive

**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 Chakwal Spinning Mills Limited to comply with the Listing Regulation of 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, sub-regulation (XIII-A) of listing regulations 35 (previously regulations No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the Boards of Directors for their consideration and approval of 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 procedure 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 June 30, 2010.



HAMEED KHAN & CO.
CHARTERED ACCOUNTANTS

Audit Engagement Partner:
Abdul Hameed Khan

Lahore.
Dated: October 08, 2010

AUDITOR'S REPORT TO THE MEMBERS


We have audited the annexed balance sheet of **CHAKWAL SPINNING MILLS LIMITED** as at June 30, 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 include 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 book of accounts have been kept by the company as required by the Companies Ordinance, 1984.
- (b) in our opinion
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.4 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 June 30, 2010 and of the profit, its cash flows and changes in equity for the year then ended, and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore.
Dated: October 08, 2010


HAMEED KHAN & CO.
CHARTERED ACCOUNTANTS

Audit Engagement Partner:
Abdul Hameed Khan ;

BALANCE SHEET

	Note	2010 Rupees	2009 Rupees
CAPITAL AND LIABILITIES			
Share Capital and Reserves			
Authorized capital: 50,000,000 (2007: 50,000,000) ordinary shares of Rs.10 each		<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid up share capital	3	400,000,000	400,000,000
Accumulated loss		<u>(240,482,855)</u>	<u>(305,412,603)</u>
		159,517,145	94,587,397
Surplus on Revaluation of Property, Plant and Equipment	4	67,789,515	74,300,364
Non Current Liabilities			
Long term financing	5	413,256,000	413,256,000
Liabilities against assets subject to finance lease	6	-	9,338,075
Deferred liabilities	7	95,955,305	82,823,317
		509,211,305	505,417,392
Current Liabilities			
Trade and other payables	8	192,682,134	154,166,227
Accrued mark- up	9	9,115,888	10,829,113
Short term borrowings	10	197,301,701	275,413,114
Current portion of non current liabilities	11	4,729,058	13,671,737
Provision for taxation	12	8,721,855	4,377,616
		412,550,636	458,457,807
Contingencies and Commitments	13	-	-
		<u>1,149,068,601</u>	<u>1,132,762,960</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Lahore
October 08, 2010


(Khawaja Mohammad Jahangir)
Chief Executive

AS AT JUNE 30, 2010

ASSETS	Note	2010 Rupees	2009 Rupees
Non Current Assets			
Property, plant and equipment	14	787,787,636	774,772,556
Long term loans	15	2,653,509	2,773,104
Long term deposits	16	5,880,449	9,382,624
		796,321,594	786,928,284
Current Assets			
Stores and spares	17	12,359,975	10,032,776
Stock in trade	18	169,278,863	210,369,012
Trade debts	19	55,333,704	44,945,780
Loans and advances	20	61,937,518	40,985,067
Trade deposits, prepayments, accrued interest and other receivables	21	21,526,684	7,065,378
Cash and bank balances	22	32,310,263	32,436,663
		352,747,007	345,834,676
		1,149,068,601	1,132,762,960


(Khawaja Mohammad Kaleem)
 Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2010**

		2010 Rupees	2009 Rupees
Sales	23	1,352,245,897	989,845,307
Cost of sales	24	<u>(1,188,035,406)</u>	<u>(950,274,753)</u>
Gross Profit		164,210,491	39,570,554
Distribution cost	25	<u>(13,649,787)</u>	<u>(8,662,619)</u>
Administrative expenses	26	<u>(25,644,114)</u>	<u>(26,361,905)</u>
		<u>(39,293,901)</u>	<u>(35,024,524)</u>
Operating Profit		124,916,590	4,546,030
Finance cost	27	(46,384,789)	(54,718,038)
Other operating expenses	28	(4,569,703)	(504,610)
Other operating income	29	<u>5,638,051</u>	<u>3,263,469</u>
Profit / (Loss) before Taxation		79,600,149	(47,413,149)
Taxation	30	<u>(18,504,480)</u>	<u>2,219,092</u>
Profit / (Loss) after Taxation		61,095,669	(45,194,057)
Accumulated loss brought forward		<u>(305,412,603)</u>	<u>(264,156,318)</u>
		(244,316,934)	(309,350,375)
Transfer from surplus on revaluation of property, plant and equipment in respect of: Incremental depreciation charged in current year - net of deferred tax		3,834,079	3,937,772
Accumulated Loss Transferred to Balance Sheet		<u><u>(240,482,855)</u></u>	<u><u>(305,412,603)</u></u>
Earnings per Share - Basic	31	<u>1.53</u>	<u>(1.13)</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Lahore
October 08, 2010


(Khawaja Mohammad Jahangir)
Chief Executive


(Khawaja Mohammad Kaleem)
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010 Rupees	2009 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) before taxation	79,600,149	(47,413,149)
Adjustments for:		
- Depreciation	41,286,983	48,597,126
- Provision for gratuity	4,376,152	4,576,646
- (Gain) / loss on disposal of property, plant and equipment	(1,800,789)	(178,835)
- Interest income	(3,072,877)	(3,080,062)
- Unclaimed liabilities written back	(764,385)	(4,572)
- Finance cost	46,384,789	54,718,038
- Workers' (profit) participation fund	4,094,703	-
	<u>90,504,576</u>	<u>104,628,341</u>
Operating profit before working capital changes	170,104,725	57,215,192
(Increase) / decrease in current assets		
- Stores and spares	(2,327,199)	(1,254,625)
- Stock in trade	41,090,149	(4,103,139)
- Trade debts	(10,387,924)	(1,740,945)
- Loans and advances	(16,836,110)	17,916,007
- Trade deposits, prepayments, accrued interest and other receivables	(15,765,416)	9,006,179
Increase / (decrease) in current liabilities	35,107,687	8,129,108
- Trade and other payables	30,881,187	27,952,585
	<u>200,985,912</u>	<u>85,167,777</u>
Cash generated from operations	200,985,912	85,167,777
Finance cost paid	(48,020,109)	(51,335,693)
Gratuity paid	(4,291,090)	(2,377,265)
Income tax paid	(7,906,426)	(6,599,290)
	<u>140,768,287</u>	<u>24,855,529</u>
Net cash from Operating Activities	140,768,287	24,855,529
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(63,528,775)	(37,968,439)
Long term loans	119,595	(565,604)
Long term deposits	3,502,175	215,986
Proceeds from disposal of property, plant and equipment	11,027,500	512,135
Interest received	4,376,987	697,598
	<u>(44,502,518)</u>	<u>(37,108,324)</u>
Net Cash used in Investing Activities	(44,502,518)	(37,108,324)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of liabilities against assets subject to finance lease	(18,280,756)	(16,692,712)
Short term borrowings	(78,111,413)	26,995,349
	<u>(96,392,169)</u>	<u>10,302,637</u>
Net Cash from Financing Activities	(96,392,169)	10,302,637
Net (Decrease) / Increase in Cash and Cash Equivalents	(126,400)	(1,950,158)
Cash and cash equivalents at the beginning of the year	32,436,663	34,386,821
	<u>32,310,263</u>	<u>32,436,663</u>
Cash and Cash Equivalents at the End of the Year	32,310,263	32,436,663

The annexed notes 1 to 39 form an integral part of these financial statements.

Lahore
October 08, 2010


(Khawaja Mohammad Jahangir)
Chief Executive



(Khawaja Mohammad Kaleem)
Director

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2010**

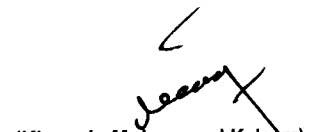
	Share Capital	Accumulated Loss	Total
	Rupees	Rupees	Rupees
Balance as at June 30, 2008	400,000,000	(264,156,318)	135,843,682
<i>Loss for the year</i>	-	(45,194,057)	(45,194,057)
<i>Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current year - net of deferred tax</i>	-	3,937,772	3,937,772
Balance as at June 30, 2009	400,000,000	(305,412,603)	94,587,397
<i>Profit for the year</i>	-	61,095,669	61,095,669
<i>Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current year - net of deferred tax</i>	-	3,834,079	3,834,079
Balance as at June 30, 2010	<u>400,000,000</u>	<u>(240,482,855)</u>	<u>159,517,145</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Lahore
October 08, 2010



(Khawaja Mohammad Jahangir)
Chief Executive



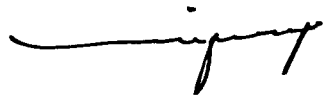
(Khawaja Mohammad Kaleem)
Director

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2010**


	2010 Rupees	2009 Rupees
Profit/(Loss) after taxation	61,095,669	(45,194,057)
Other comprehensive income for the year	-	-
Total comprehensive Profit / (Loss) for the year	<u>61,095,669</u>	<u>(45,194,057)</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Lahore
October 08, 2010



(Khawaja Mohammad Jahangir)
Chief Executive



(Khawaja Mohammad Kaleem)
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2010

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on January 31, 1988 as a Public Limited Company. Its shares are quoted on the Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Kashana-e-Yousaf, Khawaja Street, Chakwal. The Company is engaged in the business of textile spinning, knitting, fabrics processing and garment stitching.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of Accounting and Financial Reporting Standard ("IFRS") issued by the Institute of Chartered Accountants of Pakistan and 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.

2.2 Basis of preparation

These accounts have been prepared under the historical cost convention except certain property, plant and equipment that have been stated at revalued amount and retirement benefits which have been recognized at present value determined by actuary.

The preparation of financial statements in conformity with IASs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and related assumptions are reviewed on an ongoing basis. Accounting estimates are revised in the period in which such revisions are made.

Significant management estimates in these financial statements relate to the useful life of property, plant and equipment, provisions for doubtful receivables, slow moving inventory items and taxation. However, the management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in the financial statements.

2.3 Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimate and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements.

Staff retirement benefits

Certain actuarial assumption has been adopted as disclosed in note 7.1 the financial statements for valuation of present value of defined benefit obligations.

Property, plant and equipment

The Company has made certain estimations with respect to residual value and depreciable lives of property, plant and equipment. The Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in future years might effect the remaining amounts of respective items of property, plant and equipments with a corresponding effect on the depreciation charge and impairment.

Income Taxes

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

2.4 Standards, interpretations and amendments to published approved accounting standards**2.4.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

- * IAS 1 (Revised), 'Presentation of Financial Statements' is effective from January 2009. The revised standard requires that all changes in equity arising from transactions with owners in their capacity as owners (i.e owners changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. As a result the company shows all owner related changes in equity in statement of changes in equity, whereas all non-owner changes in equity are presented in other comprehensive income, Comparative information is required to be re-presented so that it is in conformity with the revised standard.
- * Income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income). The company has preferred to present two statements; (a statement displaying components of profit or loss separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). Comparative information has also been re-presented / re-arranged so it is in conformity with the revised standard. The amendment change only presentation aspects of the financial statements, it has no impact on profit or loss for the year.
- * IAS 23 (Amendment), 'Borrowing Costs' is effective from January 1, 2009. The amendment requires an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The allowed alternative treatment of recognition of borrowing cost has been removed. The Company's current accounting policy is in compliance with this amendment, and therefore there is no impact on the company's financial statements.
- * Revised IFRS – 3 Business Combinations (applicable for annual periods beginning on or after 01 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the company's financial statements.

- * IAS 38 (Amendment), 'Intangible Assets' is effective from annual periods beginning on or after July 1, 2009. The amendment clarifies guidance in measuring the fair value of an intangible assets acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any significant impact on the company's financial statements.
- * IAS – 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 01 January 2009). The amendment removes the definition of the cost methods from IAS – 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effective on company's financial statements.
- * IAS – 27 (Revised), 'Consolidated and Separate Financial Statements', is effective from July 1, 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in income statement. The amendment will not result in any material impact on the company's financial statements.
- * Amendments to IAS – 32 Financial Instruments: Presentation and IAS – 1 Presentation of Financial Statements (effective for annual period beginning on or after 01 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidations requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which requires retrospective application, or not expected to have any impact on the company's financial statements.
- * Amendment to IAS – 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 01 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the company's financial statements.
- * Amendments to IAS – 39 and IFRIC – 9 Embedded derivatives (effective for annual periods beginning on or after 01 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value. The amendments are not likely to have an effect on company's financial statements.
- * Amendment to IFRS – 2 Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 01 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the company's financial statements.
- * IFRS – 4 Insurance Contracts (effective for annual periods beginning on or after 01 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts. The standard is not applicable to the company's operations.
- * IFRS 7, 'Financial Instruments: Disclosures' is effective from January 1, 2009). IFRS 7 introduces new disclosures relating to financial instruments. The application of IFRS 7 has resulted in additional disclosures in the company's financial statements, however, there is no impact on profit for the year.

- * IFRS 8, 'Operating Segments' is effective for annual periods beginning on or after January 01, 2009. IFRS 8 replaces the IAS 14 "segment reporting" and introduces the "management approach" to segment reporting. It requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The amendment will not result in any impact on the company's financial statements.
- * IFRIC – 15, 'Agreement for the Construction of Real Estate' (effective for annual periods beginning on or after January 01, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The IFRIC is not relevant to the company's operations.
- * IFRIC 17 – Distribution of non – cash assets to owner (effective from July 01, 2009) states that when a company distributes non cash assets to its shareholders as dividend, the liability for dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in the equity. When the non cash assets is distributed, the difference between the carrying amount and fair value is recognized in the income statement.
- * IFRIC 18 – Transfers of the assets from customers (to be applied prospectively to transfer of assets from customers received on or after 1st July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

2.4.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and have not been early adopted in the current year

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after January 1, 2010 or later periods, but the company has not early adopted them:

- * IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the company's financial statements.
- * IAS 17 (Amendment). 'Leases' is effective from annual periods beginning on or after January 1, 2010. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendment clarifies that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the company's operations.
- * IAS 24. 'Related Party Disclosures (revised 2009)' (effective for annual periods beginning on or after January 1, 2011). The revised IAS amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the company's financial statements.

- * IAS 32 (Amendment), 'Financial Instruments: Presentation- Classification of Rights Issues is effective for annual periods beginning on or after January 1, 2010. The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers right, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments are unlikely to have an implication on the company's financial statements.
- * IAS 36 (Amendment), 'Impairment of Assets' (effective for annual periods beginning on or after January 1, 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendment apply prospectively. The amendment is not relevant to company's operations.
- * IAS 39 (Amendment), 'Cash Flow Hedge Accounting'. This amendment provides clarification when to recognize gains or losses on hedging instruments as a reclassification adjustments in a cash flow hedge of forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to income statement in the period in which the hedged forecast cash flow affects income statement. The company will apply IAS 39 (Amendment) from January 1, 2010. It is not expected to have any significant impact on the company's financial statements.
- * IFRS 2 (Amendment), "Share-based Payment – Group Cash-settled Share-based Payment Transactions is effective for annual periods beginning on or after January 01, 2010. The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principal even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Retrospective application is subject to the transitional requirements in IFRS 2.
- * IFRS 5 (Amendment), 'Measurement of Non-Current Assets (or disposal group) Classified as Held-for-Sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current asset (or disposal group) classified as held-for-sale or discontinued operations. It also clarifies that the general requirement of IAS I still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS I. The company will apply IFRS 5 (Amendment) from January 1, 2010. It is not expected to have a material impact on the company's financial statements.
- * IFRS-9 'Financial Instruments' (effective for annual periods beginning on or after January 1, 2013). IFRS 9 is the first standard issued as a part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary classifications depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
- * IFRIC – 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendment removes unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments results in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. These amendments are unlikely to have an impact on the company's financial statements.

- * IFRS 1, First-time Adoption of IFRSs (effective for annual periods beginning on or after January 1, 2011). The amendments clarify that IAS 8 is not first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS I exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS I so that an entity is permitted to use event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the company's operations.
- * IFRS 7, 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after January 1, 2011). The amendments add an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial statements. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the company.
- * IAS 34, 'Interim Financial Reporting' (effective for annual periods beginning on or after January 1, 2011). The amendments add examples to the list of events or transactions that require disclosures under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.
- * IFRIC 13, 'Customer Loyalty Programmes' (effective for annual periods beginning on or after January 1, 2011). The amendment clarify that the fair value of the award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.
- * IFRIC-19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the company's operations.

2.5 Staff retirement benefits

The company operates an unfunded and unapproved gratuity scheme for its employees, which is a defined benefit plan based upon the last salary drawn by an employee. Present value of defined benefit obligation is calculated on the basis of actuarial valuation at the end of the year. The valuation in these accounts is worked out on the Projected Unit Credit Actuarial Cost method.

Actuarial gains/(losses) in excess of 12 percent of the present value of defined benefit obligation are recognized over the expected average future working lives of the employees participating in the scheme. Past service cost is recognized immediately to the extent the benefits already vested.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost.

2.6 Provisions

Provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

2.7 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

2.8 Taxation***Current***

Charge for taxable income is based at current tax rates after taking into account all tax credits and rebates available, if any. In case of taxable loss higher of minimum tax u/s 113 and presumptive tax u/s 154 of the Income Tax Ordinance is provided in the accounts.

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, as required by IAS-12 (Income Taxes), are recognized 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.

2.9 Property, plant and equipment***Owned assets***

Property, plant and equipment are stated at cost / revalued amount less accumulated depreciation and identified impairment losses except free hold land that is stated at cost. Cost of property, plant and equipment consist of historical cost, borrowing cost pertaining to the construction and erection period and directly attributable cost of bringing the assets to working condition.

Depreciation on property, plant and equipment has been provided for using the reducing balance method at the rates specified in Note 14. Depreciation on all additions is charged from the month the asset is ready for the intended use and on disposals is charged upto the month in which the asset is disposed off

Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount over its estimated useful life.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are capitalized. Gain or loss on disposal of property, plant and equipment are included in the current year income.

Leased assets

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of such assets. The related obligations under the lease are accounted for at net present value of liabilities. The assets so acquired are depreciated over their expected useful life at the same rates and basis as of owned assets given in Note 14. The depreciation is charged to current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

2.10 Impairment

Carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

2.11 Stocks and stores

These are valued at lower of cost and net realisable value. Costs are determined using the following basis:

Stores and spare parts	- at moving average cost
Raw materials	- at average cost
Work in process	- at manufacturing cost using average cost method
Finished goods	- at average manufacturing cost .
Goods in transit	- at cost comprising invoice value plus other charges incurred thereon.

Manufacturing cost in relation to work in process and finished goods comprises cost of material, labour and appropriate manufacturing overheads.

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

2.12 Trade debts

All outstanding receivables are reviewed at the balance sheet date. The Company recognizes and carries these receivables at original invoice amount less an allowance for any uncollectible amounts, if any. Bad debts, if any, are written off as incurred and provision is made against debts considered doubtful when collection of the full amount is no longer probable.

2.13 Foreign currency transactions and translation

Transactions denominated in foreign currencies are initially recorded at Pak Rupees by applying the foreign exchange rate ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the balance sheet date except for balances covered under forward exchange contracts, which are converted at the contracted rates. Exchange differences are included in income currently.

2.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, cheques in hand and deposits with banks.

2.15 Financial instruments

Financial instruments are recognized in the financial statements when the Company becomes a party to the contract and ceases to recognize when it loses control of contractual rights, in case of financial assets, and in case of financial liability when the liability is extinguished. Any gain or loss on subsequent remeasurement / derecognition is charged to income.

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

2.16 Related party transactions

Transactions with related parties are made at arm's length prices using comparable uncontrolled price method except in circumstances where it is not in the interest of the Company to do so.

2.17 Financial Assets And Liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and are de-recognized, in case of financial assets when the Company loses control of the contractual rights through either realization, surrender or expiration and in case of financial liability on extinguishments, discharge, cancellation or expiration of obligation specified in the contract.

Financial assets include investments, cash and bank balance, trade debts, advances, deposits and other receivables. Trade debts are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, while other financial assets are stated at cost. Any gain or loss on the recognition and derecognition of the financial assets is included in the net profit and loss for the period in which it arises.

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include creditors, accrued and other liabilities and unclaimed creditors, accrued and other liabilities and unclaimed dividend are stated at their nominal value. financial charges are accounted for on accrual basis. Any gain or loss on the recognition and derecognition of the financial liability is included in the net profit and loss for the period in which it arises.

2.18 Borrowing Cost

Borrowing costs are charged to income as and when incurred except to the extent costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of asset.

2.19 Offsetting of Financial Assets and Financial Liabilities

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

2.20 Dividend

Dividend distribution to the shareholders is recognized as a liability in the period in which it is approved by the shareholders.

2.21 Functional and presentation currency

The financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency.

2.22 Revenue recognition

- Revenue from local sales is recognized on despatch of goods to customers and from exports at the time of bill of lading.
- Dividend income is accounted for when the right to receive dividend has been established.
- Profit / interest is accounted for on accrual basis.
- Rebates are accounted for as and when allowed.

Note 3

Issued, Subscribed and Paid up Capital

2010	2009	2010	2009
No. of shares		Rupees	Rupees
40,000,000	40,000,000	400,000,000	400,000,000
		Ordinary shares of Rs. 10 each fully paid in cash	

3.1 Shares held by related parties are as follows:

Naveed Industries (Private) Limited

Percentage of equity held 0.625% (2009: 0.625%)

2010	2009
No. of Shares	No. of Shares
250,000	250,000

Note 4

Surplus on Revaluation of Property Plant and Equipment

		2010	2009
		Rupees	Rupees
Plant and machinery			
		74,300,364	78,755,432
Balance at the beginning of the year			
Related deferred tax	4.1	(2,676,770)	(517,296)
Incremental depreciation charged on revalued plant and machinery in current year net of deferred taxation transferred to retained earnings		(3,834,079)	(3,937,772)
		<u>67,789,515</u>	<u>74,300,364</u>

4.1 This represents amount transferred (to)/from deferred tax liability due to change in proportion of local and export sales that has resulted in change in estimate of deferred tax on surplus on revaluation of property, plant and equipment.

4.2 Revaluation was carried out on May 18, 1996 by an independent valuer and certified by an independent firm of Chartered Accountants.

Note 5

Long Term Financing

		2010	2009
		Rupees	Rupees
Loan from banking companies - Secured			
Habib Metropolitan Bank - Term finance	5.1	42,000,000	42,000,000
Loan from related parties - Unsecured			
Loan from directors	5.2	371,256,000	371,256,000
		<u>413,256,000</u>	<u>413,256,000</u>

5.1 This represents term finance of Rs. 42 million and is repayable in installments of Rs125,000 per working day. The repayment of outstanding liability would commence from July 01, 2011. The finance is secured against lien over FDRs of Rs. 32.0 million held with the bank, personal deposit with the bank of Rs.10 million of director and hypothecation charge of Rs. 300 million over current assets of the Company. It carries mark up 1% over and above the rate of interest on FDRs held under bank's lien).

5.2 The directors have injected unsecured and interest free loans for the repayment of liabilities of the banks and BMR of the Company. This loan shall be repaid after the repayment of liabilities of the banks or improvement in the financial position of the Company, whichever is earlier. These loans are unsecured and interest free.

Note 6

Liabilities Against Assets Subject To Finance Lease

	2010	2009
	Rupees	Rupees
The amounts of future lease rentals are payable during:		
- 2009 - 2010	-	15,020,403
- 2010 - 2011	4,745,746	4,745,746
	<u>4,745,746</u>	<u>19,766,149</u>
Security deposits	275,000	4,885,050
	<u>5,020,746</u>	<u>24,651,199</u>
Financial charges not currently due	(291,688)	(1,641,385)
Present value of minimum lease payments	4,729,058	23,009,814
Current portion	(4,729,058)	(13,671,739)
	<u>-</u>	<u>9,338,075</u>

Reconciliation between total of minimum lease payments and their present value is as under:

Gross minimum lease payments:

- Due not later than one year	5,020,746	19,630,453
- Due later than one year but not later than five years	-	5,020,746
	<u>5,020,746</u>	<u>24,651,199</u>

Present value of minimum lease payments:

- Due not later than one year	4,729,058	13,671,739
- Due later than one year but not later than five years	-	9,338,075
	<u>4,729,058</u>	<u>23,009,814</u>

6.1 This represents finance lease arrangements entered into with Habib Metropolitan Bank Ltd., and Faysal Bank Limited to acquire plant and machinery and vehicles. Financing rates of approximately 11.35% to 15.5% per annum have been used as discounting factor. Taxes, repairs, replacement and insurance costs are borne by the Company.

6.2 The lease liabilities are secured against title of leased assets, personal guarantees of the directors and security deposits amounting to Rs. 275,000 (2009: Rs. 4,885,050) grouped under long term deposits.

Note 7

Deferred Liabilities

		2010	2009
		Rupees	Rupees
Deferred tax - net	7.1	56,877,952	43,831,026
Gratuity payable	7.2	9,077,353	8,992,291
Long term deposit	7.3	30,000,000	30,000,000
		<u>95,955,305</u>	<u>82,823,317</u>

7.1 Deferred tax - net

Credit / (debit) balance arising in respect of:

- Accelerated tax depreciation	131,862,444	101,066,852
- Surplus on revaluation of property, plant and equipment	21,524,276	25,631,368
- Recognised losses	(94,042,478)	(86,076,116)
- Staff retirement benefits and others	(2,466,290)	3,208,922
	<u>56,877,952</u>	<u>43,831,026</u>

7.2 Staff Gratuity-Defined Benefit Plan

The amounts recognized in financial statements are determined as follows:

7.2.1 Reconciliation of amount recognized in balance sheet

Present value of defined benefit obligation	7,182,828	9,320,743
Plus Actuarial gain / (Loss) to be recognized in later period	1,894,525	(328,452)
	<u>9,077,353</u>	<u>8,992,291</u>

7.2.2 The amounts recognised in the profit and loss account are balance sheet are as follows

Current service cost	3,257,663	3,722,405
Interest cost	1,118,489	854,241
	<u>4,376,152</u>	<u>4,576,646</u>

7.2.3 Movement in liability recognized in the balance sheet

At the beginning of the year	8,992,291	6,792,910
Amount recognised during the year - as shown above	4,376,152	4,576,646
Benefits payments	(4,291,090)	(2,377,265)
	<u>9,077,353</u>	<u>8,992,291</u>

7.2.4 Allocation of charge for the year

Cost of sales	24	2,995,492	3,390,500
Administrative expenses	26	1,306,580	1,186,146
		<u>4,302,072</u>	<u>4,576,646</u>

7.2.5 The principal actuarial assumptions used were as follows

Discount rate	12%	12%
Expected rate of increase in salary	11%	11%
Average expected remaining working life of employees	5 Years	5 Years

7.3 This represents an interest free and unsecured long term deferred advance received from a customer against the exclusive sale commitment of a particular quality of waste to him for a period of five years. The advance shall be adjusted against sale of fifth year or shall be extended / renewed for a further term as mutually agreed between the parties.

Note 8

Trade and Other Payables

	2010	2009
	Rupees	Rupees
Creditors		
- Secured	8,065,080	8,739,785
- Unsecured	132,489,301	114,665,598
Accrued liabilities	26,569,058	19,544,952
Other liabilities	-	728,842
Advances from customers	20,518,790	9,060,912
Unclaimed dividend	-	289,952
Income tax payable	409,034	677,923
Workers' (profit) participation fund	8.1	458,263
	<u>192,682,134</u>	<u>154,166,227</u>

8.1 Workers' (profit) participation fund

Opening balance	458,263	401,985
Contribution for the year	4,094,703	-
Interest on funds utilized in Company's business	77,905	56,278
	<u>4,630,871</u>	<u>458,263</u>

The Company retained workers' (profit) participation fund for its business operations. Interest is provided at the prescribed rate under the Companies Profits (Workers' Participation) Act, 1968.

Note 9

Accrued Interest / Mark- up

	2010	2009
	Rupees	Rupees
Accrued mark up / interest on:		
- Long term loans from banking companies	1,204,192	1,111,562
- Short term borrowings from banking companies	7,911,696	9,717,551
	<u>9,115,888</u>	<u>10,829,113</u>

Note 10

Short Term Borrowings

		2010	2009
		Rupees	Rupees
Banking companies - Secured			
Running / cash finance	10.1	192,838,333	253,929,511
Unpresented cheques	10.2	4,155,158	7,675,309
Related parties - Unsecured			
Loan from directors and others	10.3	308,210	13,808,294
		<u>197,301,701</u>	<u>275,413,114</u>

10.1 These represent utilized portion of short term finance facilities of Rs. 285 million (2009: Rs. 375 million) available from various banks under mark up arrangements. These are secured against pledge of cotton bales, yarn, synthetic / polyester fiber of appropriate value, lien over export L/Cs, Ist charge of Rs.400 million over property, plant & equipment and personal guarantees of directors. Mark-up on the above facilities ranges from 14.34 % to 16 % per annum, payable quarterly. These facilities shall expire on March 31, 2011.

10.2 This represents cheques issued in excess of bank balance that have not been presented at the balance sheet date but have been cleared subsequently.

10.3 These are un-secured and interest free funds obtained to meet the working capital requirements of the Company.

Note 11

Current Portion of Non Current Liabilities

	2010	2009
	Rupees	Rupees
Liabilities against assets subject to finance lease	<u>4,729,058</u>	<u>13,671,737</u>

Note 12

Provision for Taxation - Net

	2010	2009
	Rupees	Rupees
Balance at the beginning of the year	4,377,616	4,377,616
Provision for the year	8,134,324	2,095,351
	<u>12,511,940</u>	<u>6,472,967</u>
Paid / adjusted during the year	<u>(3,790,085)</u>	<u>(2,095,351)</u>
Balance at the end of the year	<u>8,721,855</u>	<u>4,377,616</u>

12.1 Assessments upto and including tax year 2009 have been finalized and appeals against certain assessments are pending for adjudication before appellate forum.

Note 13

Contingencies and Commitments**Contingencies**

The Company has provided bank guarantee in favour of Sui Northern Gas Pipelines Limited amounting to Rs.21.395 million (2009: Rs.15.856 million) on account of payment of dues against consumption of natural gas.

The income tax assessments of the Company have been completed deemed as finalized upto tax year 2009. The Company has, however, filed appeals for the various assessments years against the set aside order of Commissioner of Income Tax (Appeals) with the Income Tax Appellate Tribunal on various issues. No provision / adjustment has been made in these accounts since in the opinion of the management there will be no financial impact because of brought forward losses.

Commitments

	2010	2009
	Rupees in million	
Commitments for:		
- Purchase of raw materials	42.000	9.000
- Fixed capital expenditure	5.896	-

Note 14
Property, Plant and Equipment

Particulars	Cost / Revalued Amount				Depreciation					As at June 30 2010	Written Down Value as at June 30 2010	Rate
	As at July 01 2009	Additions	Deletions	Transfer / Adjustment	As at June 30 2010	As at July 01 2009	For the year	Eliminated for disposal	Adjustments			
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	%
Owned												
Free-hold land	5,009,292	-	-	-	5,009,292	-	-	-	-	-	5,009,292	-
Factory building on freehold land	178,148,208	14,524,480	-	-	192,672,688	109,305,661	7,641,978	-	-	116,947,639	75,725,049	10
Colony building on freehold land	24,914,405	-	-	-	24,914,405	13,585,220	1,038,509	-	-	14,623,729	10,290,676	10
Plant and machinery	1,054,286,269	47,615,895	(8,797,903)	-	1,093,104,261	437,942,284	28,696,693	(146,031)	-	466,492,946	626,611,315	5
Power house	29,585,289	-	-	44,600,000	74,185,289	8,556,805	2,102,848	-	12,899,435	23,559,088	50,626,201	10
Tools and equipment	1,942,356	-	-	-	1,942,356	1,553,355	38,900	-	-	1,592,255	350,101	10
Office equipment	3,418,413	-	-	-	3,418,413	1,987,998	143,046	-	-	2,131,004	1,287,409	10
Furniture and Fixtures	5,321,762	-	-	-	5,321,762	3,213,014	210,875	-	-	3,423,889	1,897,873	10
Vehicles	12,430,549	1,388,400	(2,097,119)	1,542,500	13,264,330	8,701,177	400,670	(1,522,279)	621,112	8,200,680	5,063,650	20
Sub total	1,315,056,543	63,528,775	(10,895,022)	46,142,500	1,413,832,796	584,845,474	40,273,519	(1,668,310)	13,520,547	636,971,230	776,861,566	
Leased												
Gas generators	44,600,000	-	-	(44,600,000)	-	12,899,435	-	-	(12,899,435)	-	-	-
Vehicles	9,282,100	-	(4,857,600)	(1,542,500)	2,882,000	1,955,047	493,891	-	(621,112)	1,827,826	1,054,174	-
Plant and machinery	11,000,000	-	-	-	11,000,000	608,531	519,573	-	-	1,128,104	9,871,896	-
Sub total	64,882,100	-	(4,857,600)	(46,142,500)	13,882,000	15,463,013	1,013,464	-	(13,520,547)	2,955,930	10,926,070	
Total Rupees 2010	1,379,938,643	63,528,775	(15,752,622)	-	1,427,714,796	600,308,487	41,286,983	-	-	639,927,160	787,787,636	
Total Rupees 2009	1,337,814,179	37,968,439	(5,559,175)	4,857,600	1,375,081,043	582,079,636	48,597,126	-	-	600,308,487	774,772,556	

14.1 Revaluation of plant and machinery was carried out as on may 18, 1996 by an independent valuer on replacement cost basis. Had there been no revaluation, the cost, accumulated depreciation and book values of the revalued assets would have been as follows:

	As at June 30, 2010		
	Cost	Accumulated depreciation	Written Down Value
	Rupees	Rupees	Rupees
Plant and machinery	845,454,797	354,113,356	491,341,441

14.2 The depreciation charge for the year has been allocated as under

Note	2010	2009
	Rupees	Rupees
Cost of sales	40,038,501	45,067,216
Administrative expenses	1,248,482	3,529,911
	41,286,983	48,597,127

14.3 Disposal of property, plant and equipment

Particulars	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain	Mode of disposal	Particulars of purchaser
	Rupees	Rupees	Rupees	Rupees	Rupees		
Vehicle Honda City	830,379	679,273	151,106	635,000	483,894	Nogaciation	Royal Moters Lahore
Vehicle Honda Civic	1,266,740	843,006	423,734	947,500	523,766	Nogaciation	Muhammad Tariq - Sialkot
Embroidery Machines (06 Nos)	8,797,902	146,031	8,651,871	9,445,000	793,129	Nogaciation	Waqas Abbas Enterprises Faisalabad
	10,895,021	1,668,310	9,226,711	11,027,500	1,800,789		

14.4 Certain property, plant and equipments are under charge by way of mortgage against financing from banks (refer to Note 10).

Note 15

Long Term Loans

		2010	2009
		Rupees	Rupees
Loans to employees - Unsecured and considered good	15.1	3,191,509	3,111,104
Current portion		<u>(538,000)</u>	<u>(338,000)</u>
		<u>2,653,509</u>	<u>2,773,104</u>

15.1 These represent interest free long term loans given to employees (other than chief executive, directors and executives) as per the policy of the Company, as house building finance.

Note 16

Long Term Deposits

		2010	2009
		Rupees	Rupees
Deposits against:			
- Liabilities against assets subject to finance lease		275,000	4,885,050
- Utilities		2,151,246	2,151,246
- Margin on letter of guarantee		3,454,203	2,346,328
		<u>5,880,449</u>	<u>9,382,624</u>

Note 17

Stores and Spares

		2010	2009
		Rupees	Rupees
Stores		5,475,674	7,528,124
Spares		6,884,301	2,504,652
		<u>12,359,975</u>	<u>10,032,776</u>

17.1 Stores and spares include items which may result in capital expenditure but are not distinguishable.

Note 18

Stock in Trade

		2010	2009
		Rupees	Rupees
Raw materials		116,154,415	151,923,340
Work in process		29,253,064	23,053,374
Finished goods		23,871,384	35,392,298
		<u>169,278,863</u>	<u>210,369,012</u>

18.1 Raw materials and finished goods are under first charge by way of pledge as security for certain short term borrowings (refer to Note 10).

Note 19

Trade Debts

		2010	2009
		Rupees	Rupees
Local - Unsecured and considered good	19.1	43,682,534	44,945,780
Foreign - Secured and considered good		11,651,170	-
		<u>55,333,704</u>	<u>44,945,780</u>
Local - Unsecured and considered doubtful		511,623	1,132,113
Less: Provision for doubtful debts		(511,623)	(1,132,113)
		-	-
		<u>55,333,704</u>	<u>44,945,780</u>

19.1 This includes Rs. 363,317 (2009: Rs. 379,487) due from Yousaf Weaving Mills Limited, an associated undertakings on account of sale of materials.

Note 20

Loans and Advances

		2010	2009
		Rupees	Rupees
Current portion of loans to employees	15	538,000	338,000
Advances - Considered good			
- Suppliers and contractors	20.1	35,293,937	19,687,084
- Employees	20.2	931,526	378,671
- Sales tax and federal excise duty		7,564,256	7,087,854
- Income tax		17,609,799	13,493,458
		<u>61,937,518</u>	<u>40,985,067</u>

20.1 This includes Rs. 666,303 (2009: Rs. 371,253) due from Chakwal Textile Mills Limited (associated undertaking) on account of purchase of raw material.

20.2 Amount due from directors, chief executive and executives of the Company is Nil (2009: Nil)

Note 21

Trade Deposits, Prepayments, and Other Receivables

		2010	2009
		Rupees	Rupees
Margin against import letter of credit		18,946,000	4,030,000
Prepayments		976,108	420,145
Interest receivable		1,311,123	2,615,233
Other receivable		293,453	-
		<u>21,526,684</u>	<u>7,065,378</u>

Note 22

Cash and Bank Balance

		2010	2009
		Rupees	Rupees
Cash in hand		130,887	66,501
With banks			
- Current accounts		179,376	370,162
- Deposit account	22.1	32,000,000	32,000,000
		<u>32,179,376</u>	<u>32,370,162</u>
		<u>32,310,263</u>	<u>32,436,663</u>

22.1 This represents deposit amounting to Rs. 32.0 million (2009: 32.0 million) under lien of the bank (refer to Note 5.1). The deposit yields 9.6% (2009: 8.2%), approximately, per annum.

Note 23

Sales	2010	2009
	Rupees	Rupees
Local	1,055,590,613	865,363,362
Export	304,220,903	132,928,867
	<u>1,359,811,516</u>	<u>998,292,229</u>
Export rebate	-	24,266
	<u>1,359,811,516</u>	<u>998,316,495</u>
Commission to selling agents and discount allowed	(7,565,619)	(8,471,188)
	<u><u>1,352,245,897</u></u>	<u><u>989,845,307</u></u>

Note 24

Cost of Sales		2010	2009
		Rupees	Rupees
Raw materials consumed	24.1	846,183,209	649,737,990
Fuel and power		99,637,470	102,175,535
Salaries, wages and benefits	24.2	135,480,444	86,383,945
Store and spares consumed		29,271,520	37,494,262
Packing material		19,604,401	20,737,977
Repairs and maintenance		7,632,069	6,605,419
Insurance		3,051,804	2,852,904
Depreciation	14.2	40,038,501	45,067,216
		<u>1,180,899,418</u>	<u>951,055,248</u>
Work in process			
- Opening		23,053,374	17,994,418
- Closing		(29,253,064)	(23,053,374)
		<u>(6,199,690)</u>	<u>(5,058,956)</u>
Cost of goods manufactured		<u>1,174,699,728</u>	<u>945,996,292</u>
Finished goods			
- Opening stock		35,392,298	39,670,759
- Purchases		1,814,764	-
- Closing stock		(23,871,384)	(35,392,298)
		<u>13,335,678</u>	<u>4,278,461</u>
		<u><u>1,188,035,406</u></u>	<u><u>950,274,753</u></u>
24.1 Raw materials consumed			
Opening stock		151,923,340	148,600,696
Purchases		847,086,089	670,938,058
		<u>999,009,429</u>	<u>819,538,754</u>
Sales		(36,671,805)	(17,877,424)
Closing stock		<u>(116,154,415)</u>	<u>(151,923,340)</u>
		<u><u>846,183,209</u></u>	<u><u>649,737,990</u></u>

24.2 This includes Rs. 3,063,372 (2009: Rs. 3,390,500) in respect of employee benefits - gratuity scheme.

Note 25

Distribution Cost

	2010	2009
	Rupees	Rupees
Export expenses	11,697,908	7,104,529
Freight	1,951,879	1,558,090
	<u>13,649,787</u>	<u>8,662,619</u>

Note 26

Administrative Expenses

		2010	2009
		Rupees	Rupees
Salaries, wages and benefits	26.1	7,983,167	7,103,112
Director' remuneration		1,200,000	1,200,000
Travelling and conveyance		785,682	1,658,325
Rent, rates and taxes		1,382,358	1,200,000
Postage, fax and telephone		1,746,144	1,560,301
Repairs and maintenance		536,605	648,084
Insurance		938,114	1,264,930
Utilities		1,761,789	1,188,379
Printing and stationery		1,519,336	1,005,337
Entertainment		1,715,693	1,323,418
Vehicle running and maintenance		3,422,715	2,568,164
Fees and subscriptions		797,030	412,990
Legal and professional charges		542,527	467,041
Advertisement and publicity		32,500	34,600
Provision for doubtful debts		18,897	1,132,113
Depreciation	14.2	1,248,482	3,529,911
Miscellaneous		13,075	65,200
		<u>25,644,114</u>	<u>26,361,905</u>

26.1 This includes Rs. 1,312,780 (2009: Rs. 1,106,146) in respect of employee benefits - gratuity scheme.

Note 27

Finance Cost

		2010	2009
		Rupees	Rupees
Interest / mark-up on:			
- Long term financing		4,767,863	3,846,740
- Finance lease		1,681,278	4,240,864
- Short term borrowings		35,360,774	39,331,588
- Workers' (profit) participation fund	8.1	77,905	56,278
L/C discounting charges		118,535	4,775,426
Bank charges and commission		4,378,434	2,467,142
		<u>46,384,789</u>	<u>54,718,038</u>

Note 28

Other Operating Expenses

		2010	2009
		Rupees	Rupees
Auditors' remuneration	28.1	475,000	425,000
Foreign exchange loss		-	79,610
Workers' (profit) participation fund		4,094,703	-
		<u>4,569,703</u>	<u>504,610</u>

28.1 Auditors' remuneration

Audit fee		385,000	335,000
Reviews and certifications		90,000	90,000
		<u>475,000</u>	<u>425,000</u>

Note 29

Other Operating Income

		2010	2009
		Rupees	Rupees
Income from financial assets			
Interest on bank deposits		3,072,877	3,080,062
Income from non financial assets			
Profit on sale of property, plant and equipment		1,800,789	178,835
Unclaimed liabilities written back		764,385	4,572
		<u>2,565,174</u>	<u>183,407</u>
		<u>5,638,051</u>	<u>3,263,469</u>

Note 30

Taxation

		2010	2009
		Rupees	Rupees
Current			
- For the year	30.1	8,134,324	2,095,351
Deferred			
		<u>10,370,156</u>	<u>(4,314,443)</u>
		<u>18,504,480</u>	<u>(2,219,092)</u>

30.1 This represents liability provided under section 113 & Section 169 of the Income Tax Ordinance 2001.

30.2 The income tax assessment of the company has been finalized upto and including tax year 2009 by deeming provisions of the Income Tax Ordinance 2001.

30.3 Numerical tax reconciliation has not been given due to tax losses during the year.

Note 31

Earnings / (Loss) per Share

		2010	2009
Profit / (Loss) after taxation	Rupees	61,095,669	(45,194,057)
Number of shares			
Weighted average ordinary shares outstanding during the year	Number	40,000,000	40,000,000
Earnings / (Loss) per share - basic	Rupees	<u>1.53</u>	<u>(1.13)</u>

31.1 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as the Company has no such commitments that would result in dilution of earnings of the Company.

Note 32

Remuneration of Chief Executive, Directors' and Executives

The aggregate amounts charged in the accounts for the year as remuneration and benefits to the chief executive, directors and executives of the Company are as follows:

	2010		2009	
	Directors	Executives	Directors	Executives
	Rupees		Rupees	
Managerial Remuneration	800,000	516,000	800,000	-
House rent allowance	320,000	206,400	320,000	-
Medical		99,000		
utilities	80,000	51,600	80,000	-
	<u>1,200,000</u>	<u>873,000</u>	<u>1,200,000</u>	-
Number of persons	1	1	1	

32.1 No fee has been charged by the directors for attending the board meetings.

32.2 Executives are defined as employees with basic salary exceeding Rs. 500,000.

32.3 Directors and executives are provided with company maintained cars.

Note 33

Transactions with Related Parties

The related parties comprise associated companies, related group companies, directors and key management personnel. Transactions with related parties and associated companies, other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2010	2009
	Rupees in million	
Associates		
Purchase of raw materials (Yousaf Weaving Mills Ltd.)	0.019	0.366
(Chakwal Textile Mills Ltd.)	27.345	
(Kohinoor Spinning Mills Ltd.)	2.449	
Sale of raw materials (Kohinoor Spinning Mills Ltd.)	-	19.448
(Yousaf Weaving Mills Ltd.)	0.613	
(Chakwal Textile Mills Ltd.)	3.757	
Directors		
Short term funds (received from) / repaid to directors	13.500	9.083

Sale and purchase transactions have been carried out on commercial terms and conditions under comparable uncontrolled price method.

Note 34

Financial Risk Management

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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34.2 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.

Note 35

Plant Capacity and Production

	2010	2009
Number of spindles installed	33,468	33,468
Number of shifts worked	1,095	1,095
Installed capacity in 20's count based on triple shift for 365 days (2009: 365) days (Kegs) - approximately	10,610,970	10,610,970
Actual production after conversion into 20's count (Kegs)	<u>8,388,474</u>	<u>8,271,004</u>

It is difficult to describe precisely the under utilization of production capacity in spinning since it fluctuates widely depending on various factors such as count of yarn spun, spindles speed, etc. It also varies according to the pattern of production adopted in particular year.

Note 36

Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level, and regulate its dividend payout thus maintaining smooth capital management.

a) Market Risk

i) Currency Risk

Currency risk is the risk that the fair value of 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 the amounts receivable from / payable to foreign entities. The Company's exposure to currency risk was as follows:

	2010	2009
	Rupees in million	
Trade debts	11.651	-
Gross balance sheet exposure	11.651	-
Outstanding letters of credit	(5.896)	-
Net exposure	<u>5.755</u>	<u>-</u>

The following significant exchange rates were applied during the year.

Average rate (Rupees per US Dollar)	84.31	80.00
Reporting date rate (Rupees per US Dollar)	85.50	81.34

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 Rs. 0.288 million (2009: Rs. Nil) respectively higher / lower, mainly as a result of exchange gains / (losses) on translation of foreign exchange denominated financial instruments. 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 has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, lease liabilities and short term borrowings. As the borrowings are obtained at variable rates, these expose the Company to cash flow interest rate risk.

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

	2010	2009
	Rupees	Rupees
Floating rate instruments		
Financial Liabilities		
Long term financing	42,000,000	42,000,000
Liabilities against assets subject to finance lease	4,729,058	23,009,814
Short term borrowings	192,838,333	253,929,511
Financial Assets		
Bank Balances - Saving Accounts	-	-

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the balance sheet date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs. 2.39 million (2009: Rs. 3.19 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. The analysis is prepared assuming the amounting 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. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:-

	2010 Rupees	2009 Rupees
Long term loans	2,653,509	2,773,104
Long term deposits	5,880,449	9,382,624
Trade debts	55,333,704	44,945,780
Advances, trade deposits and other receivables	58,290,147	27,469,133
Cash and bank balances	32,310,263	32,436,663

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. As at the balance sheet date, the Company had Rs. 285 million worth short term borrowing limits available from financial institutions and Rs. 32.310 million cash and bank balances. Following are the contractual maturities of financial liabilities, including interest payments.

Contractual maturities of financial liabilities as at June 30, 2010:

	Carrying Amount Rupees	Contractual cash flows Rupees	Less than 1 year Rupees	Between 1 to 5 years Rupees	5 years and above Rupees
Long-term finances	42,000,000	49,245,000	4,830,000	44,415,000	-
Liabilities against leased assets	5,020,746	5,312,434	5,312,434	-	-
Trade and other payables	172,163,344	172,163,344	172,163,344	-	-
Accrued interest	9,115,888	9,115,888	9,115,888	-	-
Short term finances	196,993,491	225,242,358	225,242,358	-	-

Contractual maturities of financial liabilities as at June 30, 2009:

	Carrying Amount Rupees	Contractual cash flows Rupees	Less than 1 year Rupees	Between 1 to 5 years Rupees	5 years and above Rupees
Long-term finances	4,200,000	46,939,200	41,910,000	5,029,200	-
Liabilities against leased assets	18,124,764	19,766,149	15,020,403	4,745,746	-
Trade and other payables	145,105,315	145,105,315	145,105,315	-	-
Accrued interest	10,829,113	10,829,113	10,829,113	-	-
Short term finances	261,604,820	300,243,852	300,243,852	-	-

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 5, Note 6 and Note 10 to these financial statements.

34.2 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.

Note 35

Plant Capacity and Production

	2010	2009
Number of spindles installed	33,468	33,468
Number of shifts worked	1,095	1,095
Installed capacity in 20's count based on triple shift for 365 days (2009: 365) days (Kgs)-approximately	10,610,970	10,610,970
Actual production after conversion into 20's count (Kgs)	<u>8,388,474</u>	<u>8,271,004</u>

It is difficult to describe precisely the under utilization of production capacity in spinning since it fluctuates widely depending on various factors such as count of yarn spun, spindles speed, etc. It also varies according to the pattern of production adopted in particular year.

Note 36

Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level, and regulate its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As on the balance sheet date, the gearing ratio of the Company was as under:

	2010	2009
	Rupees	Rupees
Total borrowings	606,094,333	667,185,511
Cash and bank balances	<u>(32,310,263)</u>	<u>(32,436,663)</u>
Net Long Term Debt	<u>573,784,070</u>	<u>634,748,848</u>
Equity	159,517,145	94,587,397
Total capital employed	<u>733,301,215</u>	<u>729,336,245</u>
Gearing Ratio	78.25%	87.03%

Note 37

Subsequent Events

The Board of Directors at their meeting held on October 08, 2010 have proposed a dividend of Rs. 0.5 per share (2009: Rs. Nil per share) for the year ended June 30, 2010, amounting to Rs. 1,302,650 (2009: Rs. Nil), subject to the approval of members at the annual general meeting to be held on October 31, 2010.

Note 38

Authorization of Financial Statements

These accounts have been authorized for issue by the Board of Directors of the Company on October 08, 2010.

Note 39

General

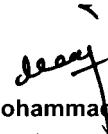
Figures have been rounded off to the nearest Rupee.

Corresponding figures have been re-arranged wherever necessary to facilitate comparison.
No material rearrangement have been made in these account.

Lahore
October 08, 2010



(Khawaja Mohammad Jahangir)
Chief Executive



(Khawaja Mohammad Kaleem)
Director

KEY FINANCIAL DATA OF LAST SIX YEARS

(Rupees in '000)

	2010	2009	2008	2007	2006	2005 9 Months
Sales	1,352,246	989,845	870,628	847,459	705,391	568,413
Gross Profit	164,210	39,570	66,481	69,824	28,573	43,437
Profit / (Loss) Before Taxation	79,600	(47,413)	10,665	5,789	(20,975)	6,212
Tax	(18,504)	2,719	9,573	1,207	11,693	3,104
Profit / (Loss) After Taxation	61,096	(45,194)	1,092	4,583	11,693	3,108
Total Assets	1,149,069	1,132,763	1,158,263	1,085,729	977,393	817,074
Current Liabilities	412,551	458,458	422,977	401,007	315,072	353,399
	736,518	674,305	735,286	684,722	662,321	463,675

Share Capital	400,000	400,000	400,000	400,000	400,000	113,256
Investment revaluation surplus	0	0	0	0	0	0
Accumulated (Loss)/Profit	240,483	(305,413)	(264,156)	(269,402)	(278,069)	(249,701)
Equity	640,483	94,587	135,844	130,598	121,931	(136,445)
Surplus on Revaluation of Fixed Assets	67,790	74,300	78,755	83,064	79,551	83,852
Deposit for Shares	0	0	0	0	0	0
Long Term Loans Leases	413,256	413,256	413,256	394,506	365,744	460,236
Finance Lease	0	9,338	23,010	28,926	36,825	
Deferred Liability	95,955	82,823	84,421	47,628	58,270	56,032
	1,217,484	674,304	735,286	684,722	662,321	463,675

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2010

CATEGORIES OF SHARES HOLDERS	NUMBER OF SHARES HOLDERS	NUMBER OF SHARES HELD	%
1. INDIVIDUALS	906	38,507,035	96.27
2. INVESTMENT COMPANIES	3	41,400	0.10
3. INSURANCE COMPANIES	4	114,300	0.29
4. JOINT STOCK COMPANIES	10	282,122	0.71
5. FINANCIAL INSTITUTIONS	6	949,743	2.37
6. MODARABA COMPANIES	2	3,000	0.01
7. FOREIGN COMPANIES	3	92,400	0.23
8. CHARITABLE TRUST	1	10,000	0.03
9. OTHERS	0	-	0.00
TOTAL	935	40,000,000	100

Detail of Pattern of Shareholding as per Requirements of Code of Corporate Governance

Associated Companies Undertakings & Related Parties

i Naveed Industries (Pvt.) Limited 250,000

NIT / ICP

i National Bank of Pakistan - Trustee Wing 829,484

ii Investment Corporation of Pakistan 3,500

Directors, Chief Executive, their Spouse and Minor Children

i Khawaja Mohammad Jawed 2,462,979

ii Khawaja Mohammad Jahangir 2,800,500

iii Khawaja Mohammad Tanveer 2,501,000

iv Khawaja Mohammad Kaleem 24,005,500

v Khawaja Mohammad Nadeem 2,867,900

vi Khawaja Mohammad Naveed 1,424,792

vii Mr. Muhammad Aman 868,800

viii Mrs. Kausar Tasneem W/o Kh. M. Jawed 400

ix Mrs. Rubina Khanum W/o Kh. M. Jahangir 2,500

36,934,371

Executives

Public Sector Companies & Corporations

i State Life Insurance Corporation 52,000

ii National Development Finance Corporation 4,500

Banks, Development Finance Institutions and Non Banking Finance

Institutions Insurance Companies, Madaraba & Mutual Funds 218,959

General Public

1,572,664

Joint Stock Companies

282,122

Foreign Companies

92,400

Others

-

39,990,000

Shareholders holding 10% and above Voting Interests

Khawaja Mohammad Kaleem

24,005,500