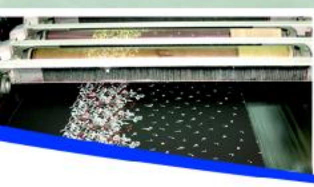




NISHAT

# Nishat Mills Limited

## Annual Report and Accounts
for the year ended June 30, 2010

# CONTENTS

## Nishat Mills Limited



## Nishat Mills Limited and its Subsidearies

# COMPANY INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS:** | Mian Umer Mansha | Chairman/Chief Executive Officer |
| | Mian Hassan Mansha | |
| | Mr. Khalid Qadeer Qureshi | |
| | Mr. Muhammad Azam | |
| | Mr. Muhammad Ali Zeb | |
| | Mr. Syed Zahid Hussain | |
| | Ms. Nabiha Shahnawaz Cheema | |
| **AUDIT COMMITTEE:** | Mr. Khalid Qadeer Qureshi | Chairman/Member |
| | Mr. Muhammad Azam | Member |
| | Ms. Nabiha Shahnawaz Cheema | Member |
| **CHIEF FINANCIAL OFFICER:** | Mr. Badar-ul-Hassan | |
| **COMPANY SECRETARY:** | Mr. Khalid Mahmood Chohan | |
| **AUDITORS:** | Riaz Ahmad & Company | Chartered Accountants |
| **LEGAL ADVISOR:** | Mr. M. Aurangzeb Khan, Advocate, Chamber No. 6, District Court, Faisalabad. | |

**BANKERS TOTHE COMPANY:**

Albarka Islamic Bank
Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Barclays Bank PLC
Bank Islami Pakistan Limited
Citibank N.A
Deutsche Bank
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
HSBC Bank Middle East Limited
JS Bank Limited
KASB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Pak Brunei Investment Company Limited
Pakistan Kuwait Investment Company (Pvt) Limited
Samba Bank Limited
Saudi Pak Industrial & Agriculture Invistment Company Limited
Silk Bank Limited
Standard Chartered Bank (Pakistan) Limited
The Royal Bank of Scotland
United Bank Limited

| | | |
|---|---|---|
| **MILLS:** | Nishatabad, Faisalabad. | (Spinning units & Power plant) |
| | 12 K.M. Faisalabad Road, Sheikhupura. | (Weaving units & Power plant) |
| | 21 K.M. Ferozepur Road, Lahore. | (Stitching unit) |
| | 5 K.M. Nishat Avenue Off 22 K.M. Ferozepur Road, Lahore. | (Weaving, Dyeing & Finishing unit, Processing unit, Stitching unit and Power plant) |
| | 7 K.M. East Hadiara Drain Off: 22 K.M. Ferozepur Road, Lahore. | (Apparel Unit) |
| | 20 K.M. Sheikhupura Faisalabad Road, Feroze Watwan. | (Spinning unit & Power plant) |

**REGISTERED OFFICE & SHARES DEPARTMENT:**

Nishat House,
53 - A, Lawrence Road, Lahore.
Tel: 042-36360154, 35990035, 042-111 113 333
Fax: 042-36367414

**HEAD OFFICE:**

7, Main Gulberg, Lahore.
Tel: 042-35716351-59, 042-111 332 200
Fax: 042-35716349-50
E-mail: nishat@nishatmills.com
Website: www.nishatmillsltd.com

**LIAISON OFFICE:**

Ist Floor, Karachi Chambers,
Hasrat Mohani Road, Karachi.
Tel: 021-32414721-23
Fax: 021-32412936

## MISSION STATEMENT

To provide quality products to customers and explore new markets to promote/expand sales of the Company through good governance and foster a sound and dynamic team, so as to achieve optimum prices of products of the Company for sustainable and equitable growth and prosperity of the Company.

# VISION STATEMENT

To transform the Company into a modern and dynamic yarn, cloth and processed cloth and finished product manufacturing Company that is fully equipped to play a meaningful role on sustainable basis in the economy of Pakistan.

To transform the Company into a modern and dynamic power generating Company that is fully equipped to play a meaningful role on sustainable basis in the economy of Pakistan.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE** is hereby given that Annual General Meeting of the members of Nishat Mills Limited ( the "Company" ) will be held on October 30, 2010 (Saturday) at 11.00 A.M. at Nishat House, 53–A, Lawrence Road, Lahore, to transact the following business:-

## ORDINARY BUSINESS

1. To confirm minutes of the last Meeting.

2. To receive, consider and adopt the Separate and Consolidated Financial Statements of the Company for the year ended June 30, 2010 together with Directors' and Auditors' reports thereon.

3. To approve Final Cash Dividend @ 25 % (i.e. Rs.2.5 per share) as recommended by the Board of Directors.

4. To appoint auditors of the Company and fix their remuneration. The Board of Directors have approved the appointment of M/s. Riaz Ahmad & Company, Chartered Accountants, the retiring auditors as auditors of the Company for the year ending June 30, 2011 on the recommendations of the Audit Committee.

## SPECIAL BUSINESS

5. To consider and if deemed fit, to pass the following special resolution, with or without modification(s), addition(s) or deletion(s), as proposed by the directors: -

### Resolved

**That** subject to the requisite regulatory approvals and in compliance with the laws and business norms of the United Arab Emirates, the Company be and is hereby authorized and empowered to establish a Limited Liability Company under the proposed name of Nishat UAE LLC, as a wholly owned subsidiary to be incorporated under the laws of United Arab Emirates for the purposes, among others, of operating wholesale and retail outlets of the Company in the United Arab Emirates.

### Resolved Further

**That** the consent and approval of the members of the Company be and is hereby accorded to make the following investments in the proposed Limited Liability Company to be incorporated under the proposed name of Nishat UAE LLC:

(a) Equity investment up to USD 2.75 million (United States Dollars Two Million Seven Hundred Fifty Thousand Only) by way of Equity Investment; and

(b) Investment up to USD 1.0 million (United States Dollars one million only) by way of loans and advances, as and when required, at mark up rate of not less than the average borrowing cost of the Company.

**Resolved Further**

That the Chief Executive and/or Company Secretary of the Company be and are hereby jointly and / or severally authorized to establish a Limited Liability Company in the United Arab Emirates and to make the aforesaid investments and to dispose off a part or all of this investments at any time they / he deem(s) fit in the best interest of the Company.

**Resolved Further**

That the Chief Executive and/or Company Secretary of the Company be and are hereby jointly and / or severally authorized and empowered to take any and all actions and to do all acts and things for the establishment of the Company and to make aforesaid investments including but not limited to filing of applications before any regulatory body for seeking necessary approvals from them and to complete all legal formalities including signing and execution of documents, instruments and other papers as may be required in connection therewith, which may be necessary under the laws of Pakistan and United Arab Emirates and for carrying out the purposes aforesaid and giving full effect to and implement the above resolution.

**OTHER BUSINESS**

6. Any other matter with the permission of the chair.

**BY ORDER OF THE BOARD**

**KHALID MAHMOOD CHOHAN**
**(COMPANY SECRETARY)**

**Lahore: September 9, 2010**

**NOTES: -**

1. **BOOK CLOSURE NOTICE FOR ENTITLEMENT OF FINAL 25% CASH DIVIDEND FOR THE YEAR ENDED JUNE 30, 2010:-**

   The Share Transfer Books of the Company will remain closed for entitlement of Final Cash Dividend @ Rs.2.5 per share i.e. 25%, from 23-10-2010 to 30-10-2010 (both days inclusive). Physical transfers / CDS transactions / IDs. received in order at Nishat House, 53-A, Lawrence Road, Lahore upto 1:00 p.m. on 22-10-2010, will be considered in time for the entitlement of said dividend and attending of meeting.

2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must reach the Company's Registered Office not later than 48 hours before the time for holding the meeting. Proxies of the Members through CDS shall be accompanied with attested copies of their CNIC. In case of corporate entity, the Board's resolution/power of attorney with specimen signature

shall be furnished (unless it has been provided earlier) along with proxy form to the Company. The shareholders through CDC are requested to bring original CNIC, Account Number and Participant Account Number to produce at the time of attending the meeting.

3. Shareholders are requested to immediately notify the change of address, if any.

4. Members who have not yet submitted photocopies of their Computerized National Identification Cards to the Company are requested to send them at the earliest.

5. The Statement U/S 160(1) (b) of the Companies Ordinance, 1984 is annexed herewith.

## STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on October 30, 2010 (Saturday).

### Investments in proposed wholly owned subsidiary / associated company in United Arab Emirates (the "UAE")

The Board of Directors of Nishat Mills Limited ("the Company") has approved the establishment of a Limited Liability Company in UAE under the proposed name of Nishat UAE LLC, as a wholly owned subsidiary company to be incorporated under the laws of UAE for the purposes, among others, of operating wholesale and retail outlets of the Company in the UAE. An amount of upto USD 2.75 million (United States Dollars Two Million Seven Hundred Fifty Thousand only) is proposed to be invested by way of equity participation and an amount of upto USD 1.0 million (United States Dollars One million only) is proposed to be invested by way of loans and advances in the proposed company as and when required, at mark up rate of not less than the average borrowing cost of the Company. The Company will use its own funds for making the aforesaid investments. The investment in equity will be a strategic investment on long term basis for capital appreciation and dividends. The loans and /or advances shall be for a maximum period of five years to be provided from time to time at mark up of not less than average borrowing cost of the Company. The proposed investments will expand the business horizon of the Company beyond Pakistan. The management expects that the dividends from the investee company will enhance the profitability of the Company resulting in addition to the shareholders value. Besides, the presence of the Company in UAE will expand the area of operations of the Company which could bring in substantial demand for the Company's products. The directors or their relatives have no interest, whatsoever, in the proposed special business. The following is the summary of the projected profits of the proposed company:

**(Rupees in thousand)**

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Sales | 341,218 | 379,498 | 403,185 | 428,456 |
| Gross Profit | 170,609 | 189,749 | 201,592 | 214,228 |
| Operating Profit | 34,191 | 52,383 | 52,667 | 53,724 |
| Net Profit | 49,102 | 62,324 | 57,637 | 55,712 |

## STATUS OF PENDING INVESTMENT DECISIONS

### Status:

The following decisions to make investment under the authority of special resolutions have not been implemented:

| | |
|---|---|
| MCB Bank Limited | Rs. 1.8 billion approved in AGM held on October 29, 2009 |
| Adamjee Insurance Company Limited | Rs. 5.0 million approved in EOGM held on October 01, 2007 |

### Reasons for not making investment:

Out of above approval an investment of Rs.102 million has been made by the Company during current year in the shares of MCB Bank Limited whereas no investment has been made in the shares of Adamjee Insurance Company Limited due to the volatile market situation and deteriorating growth and other macro-economic indicators of the country.

### Major Change in financial position of investee companies since date of last resolution:

There is no major change in the financial position of investee companies since the date of last meeting, except the followings:

| | Year ended December 31, | |
|---|---|---|
| | **2009** | **2008** |
| | **Rupees** | |
| **Earnings per share:** | | |
| MCB Bank Limited | 22.42 | 22.25 |
| Adamjee Insurance Company Limited | 21.60 | 9.80 |
| **Break up value per share:** | | |
| MCB Bank Limited | 88.37 | 75.60 |
| Adamjee Insurance Company Limited | 95.90 | 83.70 |

# DIRECTORS' REPORT

Directors of Nishat Mills Limited ("the Company") are pleased to present the 62nd annual report of the Company for the year ended June 30, 2010 along with the financial statements and auditors' report thereon.

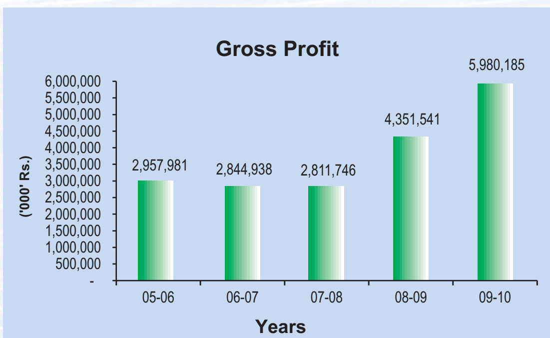
## Operating financial results

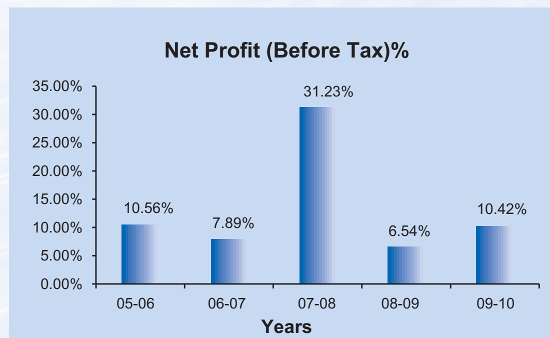
An after tax profit of our Company for the year ended June 30, 2010 has significantly increased to Rs 2,915.461 million compared to Rs 1,268.001 million for the corresponding previous year ended June 30, 2009, showing an increase of 129.93 %. Similarly, the gross profit for the current year has significantly increased to Rs 5,980.185 million compared to Rs 4,351.541 million for the corresponding previous year.

| Financial highlights | 2010 | 2009 | Increase/(decrease) (%) |
|---|---|---|---|
| Net sales (Rs '000') | 31,535,647 | 23,870,379 | 32.11 |
| Gross profit (Rs '000') | 5,980,185 | 4,351,541 | 37.43 |
| Pre-tax profit (Rs '000') | 3,286,069 | 1,561,501 | 110.44 |
| After tax profit (Rs '000') | 2,915,461 | 1,268,001 | 129.93 |
| Gross profit ratio to sales (%) | 18.96 | 18.23 | |
| After tax profit ratio to sales (%) | 9.24 | 5.31 | |
| Earnings per share (Rs) | 10.50 | 6.23 | |

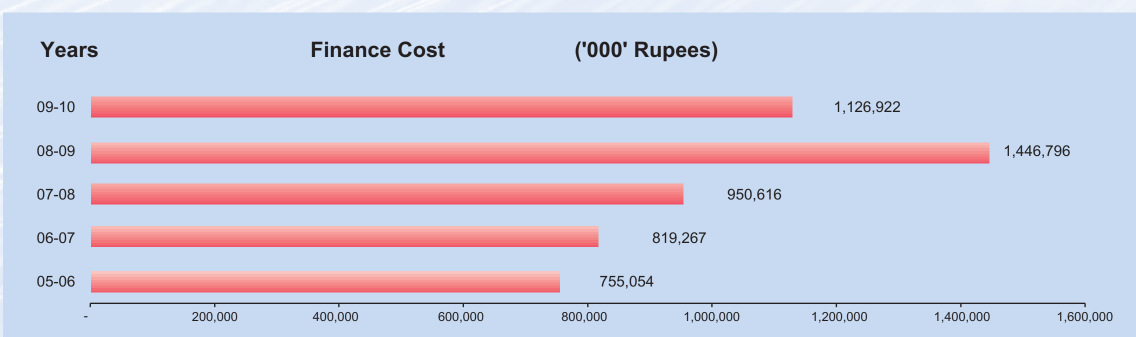
The significant increase in sales in 2010 by 32.11% over 2009 is in line with the Company's commitment to year on year growth trend in sale quantities together with the significant increase in sale prices. It is worth mentioning here that our garment sector has shown more than 100% increase in sales in 2010 over 2009.


The significant increase in gross profit and net profit is mainly attributable to increase in sale quantities, good sales mix of products and increase in prices of the products manufactured and sold by the Company. All business segments of the Company have been able to realize benefit from the slightly improved economic scenario during the current year for the textile sector of the country compared to the corresponding previous year and have contributed towards the excellent results. In particular spinning and garment businesses of the Company has performed tremendously well in the current year by generating higher margins. Our spinning business through effective planning, timely investment in cotton and excellent production facilities has grasped optimum benefits offered by the sharp rise in demand of cotton yarn and its selling prices even though later in the year the sales margins were affected by imposition of additional duties by the Government. Our timely investment in garments segment has started showing positive results in the current year and it has shown a growth in revenue and gross margin of 107% and 335% respectively.

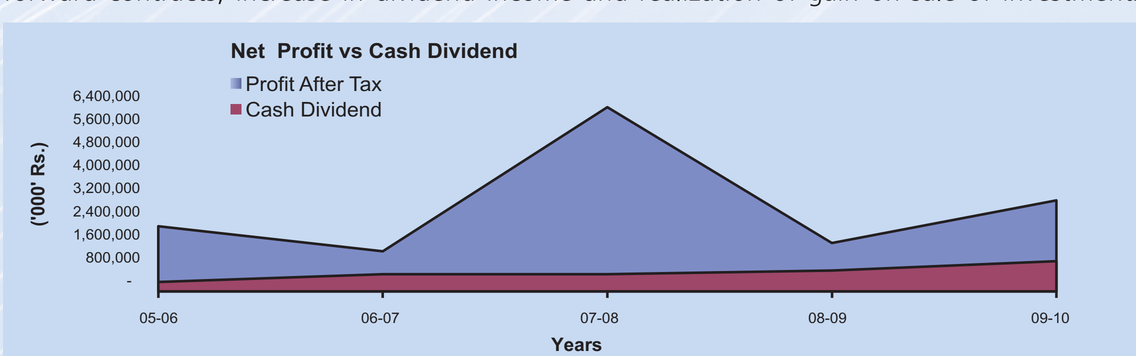



The finance cost of the Company has decreased by 22.11% (June 2009: Rs 1,446.796 million, June 2010: Rs 1,126.922 million) in the current year compared to the corresponding previous year owing to improved cash inflows resulting from excellent profits earned by the Company, interest rates subsidy given by the Government and more effective funds management.




Furthermore, other operating income in the current year has increased by 63.88% (June 2009: Rs 599.006 million, June 2010: Rs 981.650 million) mainly on account of recording of exchange gain on forward contracts, increase in dividend income and realization of gain on sale of investments.




The Board of Directors of the Company has recommended 25% cash dividend (2009: 20%) and transferring Rs. 2,036 milion (2009: Rs. 948 million) to general reserve.

## General market review and future prospects

Worldwide businesses were adversely affected by onset of global economic recession in financial year 2008-2009. There has been some recovery of economies from the recession in financial year 2009-2010; however, its effect is still far from over. Global recession is not the only cause of our concern. Serious internal issues also affected our textile industry quite badly. The high cost of production resulting from higher cotton prices, rising energy costs, increasing prices of imported inputs due to depreciation of Pakistani rupee, double digit inflation and prolonged power cuts are posing serious threats to textile sector. On these fronts the situation is expected to remain volatile in the future.

Our company did extremely well during the current financial year and achieved 32.11% growth in total net revenue from the corresponding previous year. Despite all the challenges faced by our textile sector, Nishat achieved this success through full utilization of its production capacity, timely investments, effective business planning, aggressive marketing strategy, strong customer base and diversified product range.

Our textile industry has been going through one of the toughest periods in decades. It has been facing tough challenges but the worse can be expected in the next year when the loss of cotton crop resulting from unprecedented rains and floods in the Country will adversely affect the textile sector. Currently, the impact of this huge natural calamity can not be assessed. All the sectors of our economy in general and the agriculture dependant business such as textile sector in particular will have to face extremely tough challenges including but not limited to raw material shortages causing prices of supplies to increase, higher cost of imported raw material, expected devaluation of Rupee and higher inflation. In this need of hour, the Government is required to introduce very effective measures to protect our export businesses of which textile sector is the biggest contributor.

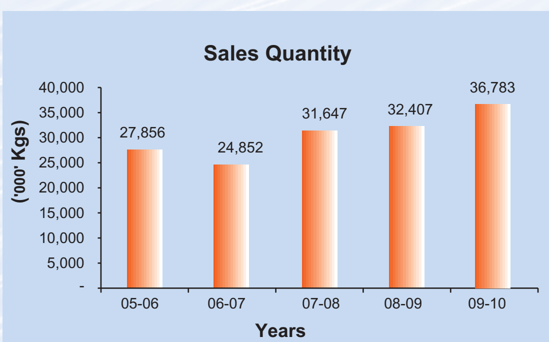
Besides the disastrous effect of floods in the future, we foresee more challenges which include tough competition from neighboring countries and continuing trend of slower sales of textile products in US and European markets. As evident from our excellent results in the current year we are keeping close eye on market situation and taking proactive measures to mitigate the impact of emerging challenges. As a part of our future marketing strategy we are exploring new avenues and particularly focusing on developing work wear business. We believe that addition of this business will enable us to fill our capacities in the lean months and will result in consistent growth of business throughout the year. We are actively analyzing the market situation and damage to the cotton crop caused by the floods in the country and hopeful that we will be able to develop an effective strategy to ensure ample supply of cotton and other resources at minimum costs possible.

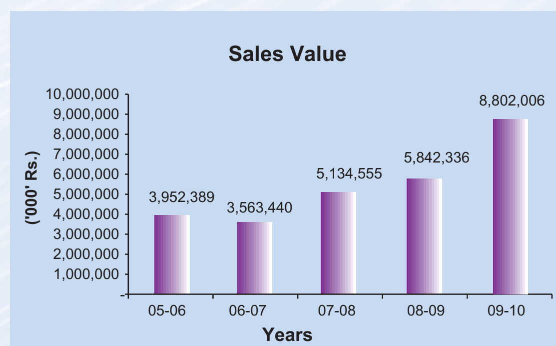
Our strength lies in our strategic planning and marketing capabilities along with our vertically integrated production facilities that can turn raw cotton to a final finished consumer product that always attract attention of customers all over the world. Our intentions are much focused to add further value added products and systems and to further diversify our product range.

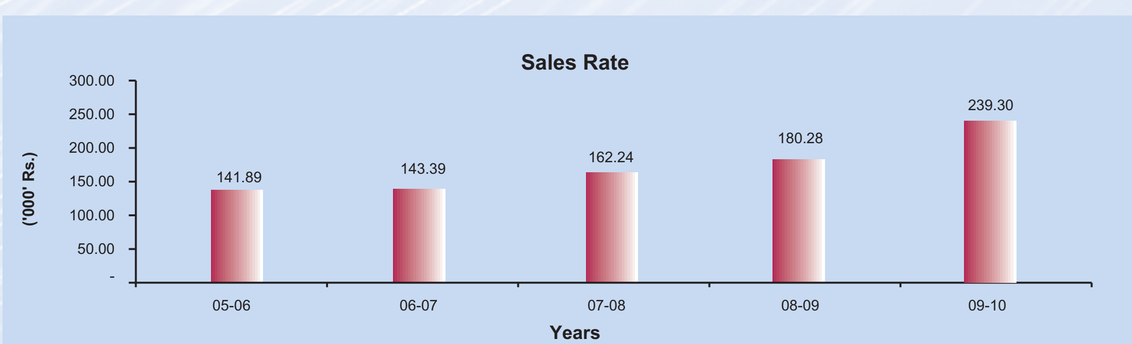
## Spinning

In financial year 2009-2010, cotton prices have significantly increased owing mainly to reduction in cotton imports, reduced cotton crop of China and increasing demand of cotton yarn in the Far East.

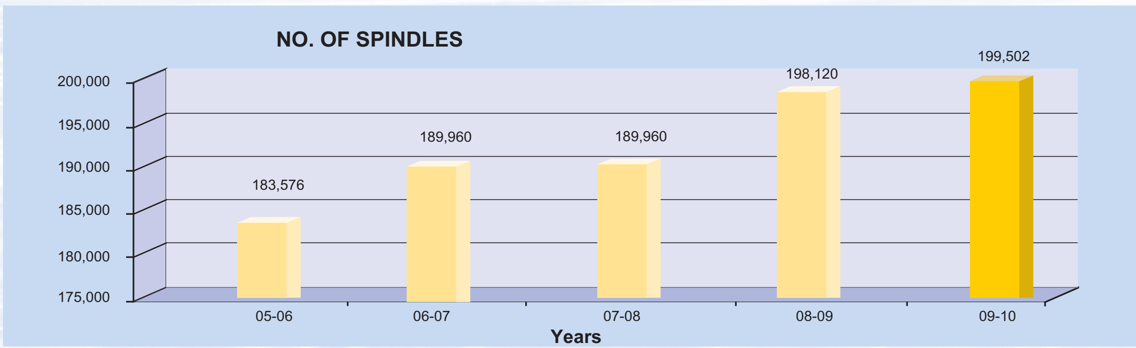
China has appeared as the major importer of cotton. Consequently, cotton prices had increased by 75% by the end of the current year. This increase in cotton prices caused significant increase in yarn prices and resulted in higher sales for spinning business and an increase in margins. Increased cotton prices, prolonged power shortages, high borrowing rates and high rate of inflation have forced a number of spinners to close down the business. In third quarter of the current year the Government of Pakistan's measure to control the cotton yarn prices in the domestic market through restrictions on export of yarn such as imposition of quantitative quota and regulatory duty on cotton yarn export further affected the spinning business. Despite all these challenges, overall increase in demand of cotton yarn and higher selling prices increased the profitability for spinners.



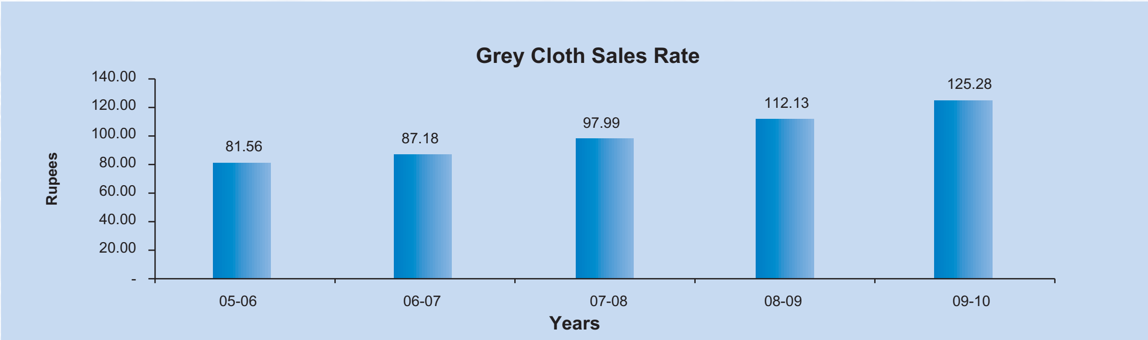

Our spinning business in Nishat has successfully overcome all these challenges and has shown positive growth through close monitoring of the market situation and with timely measures. We achieved growth in our sale quantities as well as sale prices and increased our profitability with timely investment in cotton to stabilize fluctuations in the cotton prices. In the current year our local cotton purchase price was Rs 4,016 per maund and imported cotton purchase price was Rs. 6,004 per maund. Furthermore, continuous diminution in Pak Rupee, increasing demand of cotton yarn, slight improvement in global economic scenario favorably supported export of cotton yarn.



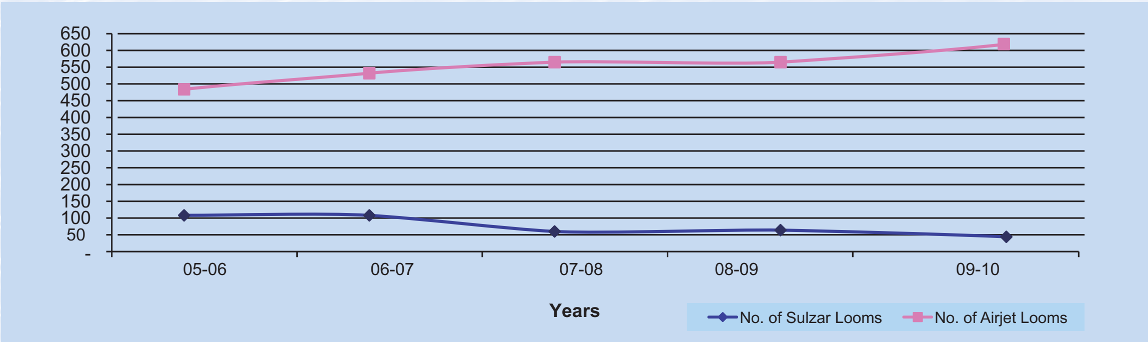

Furthermore, during the current financial year Nishat has upgraded its spinning machinery with erection of most modern and efficient Ring Frames and Cone Winding machines in two spinning units and replacement of similar machines of other units to help increase automation, reduce labour cost and produce better quality yarn. The installation of our Yarn Dyeing facility of 7 Tons / day is in progress which is expected to start operating from July 2010.

## Weaving

Financial year 2009-2010 was a very turbulent year for our weaving business. Sharp increase in cotton prices, high volatility in yarn prices together with continued effects of global economic recession started during the previous year made the current year extremely challenging. We did extremely well in achieving 9.27% increase in our sales over the previous year through our wide range of customers and specialized products. We managed to increase our work wear and military uniform business together with increasing the abrasive fabric business mainly due to revival of the car industry, however, fashion business is still slow owing to immense pressure on prices. However, sharp increase in cotton and yarn prices and pressure on selling prices in Europe and America has squeezed our profit margins since this sharp rise in cotton and yarn prices could not be fully passed on to our customers. It has been very difficult for us to get appropriate price increase particularly from the customers in Europe.

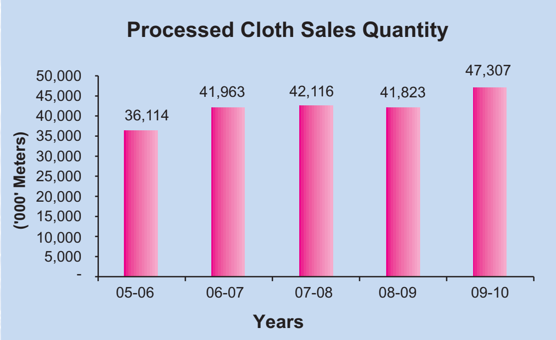

In the next year timing of purchase of yarn will be of particular importance as it was this year. A drop and more stability in cotton and yarn prices next year will consequently decrease our selling prices but result in better margins for us. Our customers are currently wary of volatility in cotton and yarn prices and thus are careful of placing orders in advance. However, overall sentiment among customers is positive for the coming year and we will continue focusing on our excellent customer relationships.




Recently we have installed 50 new state of the art Toyota air jet looms to expand our production capacity at one of our units. Focus on reducing our production costs through better production facilities, effective strategy for yarn purchases and new products and niche marketing are keys to success going forward.

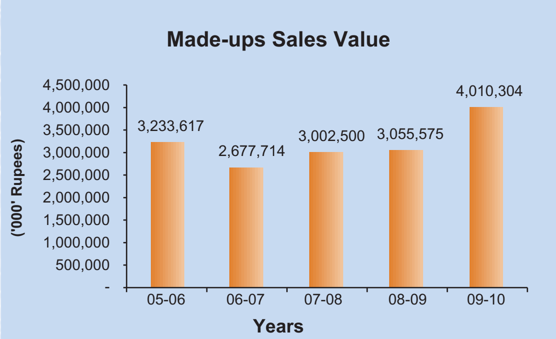
## Processing and Home Textile

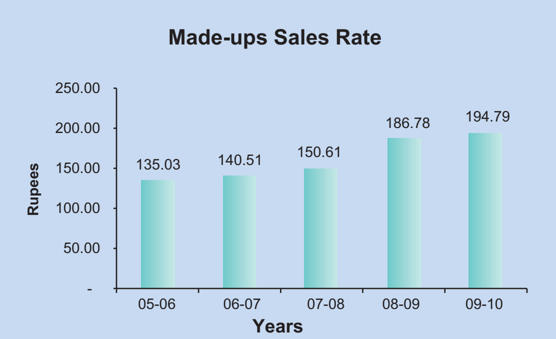
During the current financial year the markets had been very volatile owing to impact of continued global economic recession, significant increase in cotton, yarn and grey fabric prices and lower demand in international markets that had resulted in negative impacts on processing and home textile business also. However, during the current year, global economic recession in American and European markets slightly eased out. Despite these challenges, Nishat has once again proved its ability to survive in the difficult times and it has achieved growth of 25.76% in sales volumes, however, with the significant increase in prices of our raw material we could only maintain our profitability levels of the previous year. Our proactive marketing approach, strong relationship with customers, large production facilities, own power generation facilities, ability to utilize alternative energy sources and vertical integration of entire textile process made this possible for us.










Furthermore, some more businesses were developed by us that improved our exports. In particular Turkish and Spanish markets and new customers like Angore, Next, Kohls, HLL etc have significantly contributed towards enabling us to utilize our optimum production and stitching capacities. We have been able to maintain our position as one of the largest exporters of Pakistan's textile industry.

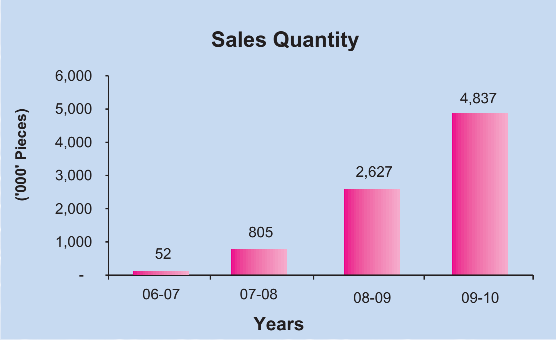
We expect that in future there will be more challenges due to tough competition from neighboring countries and highly volatile cotton, yarn and grey prices especially after the damages to cotton crop caused by the floods in our country. In order to cope with these circumstances we are taking all necessary measures, which include ensuring timely sufficient and cheap purchase of grey cloth, negotiating prices with all customers based on prevailing market conditions, focusing on maintaining certain contribution margins and retaining key customers. Furthermore, we have already started focusing on further developing our business in up-market brands over and above the regular mill-runner articles.

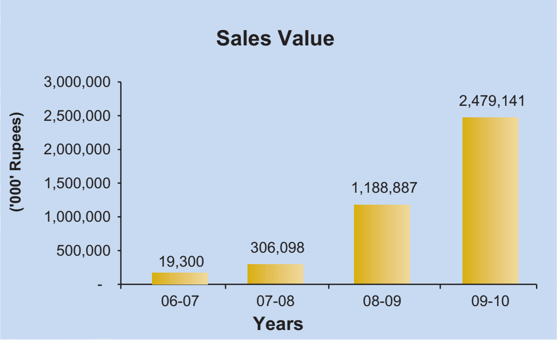
Nishat is becoming a stronger player with regard to special fabric supplies to several European armed forces that requires extraordinary quality requirements and consistency throughout the production. Our local retail business of Nishat Linen shops has also expanded during the current year. Moving to the next year, the prices of cotton, yarn and grey will largely affect the volumes and profitability of our business.

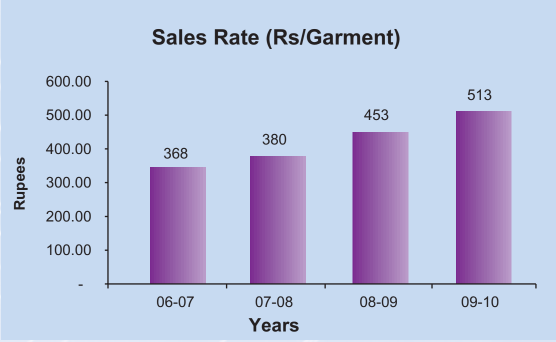
Moreover, we have upgraded our processing plant with the narrow width printing machine. One hundred stitching machines were also installed along with the switch-track system that will enhance the working efficiency enormously besides the improved product quality. We are further focusing on to improve our production capacities as well as production efficiencies along with optimum utilization of human resources. We have also planned installation of a new bleaching plant and increasing our sewing capacity with the purchase of number of new sewing machines which will help us further enhance our ability to handle large volumes and on time deliveries.

## Garments

Our garments sector has shown tremendous improvement in financial 2009-2010 over the corresponding previous year which is attributable to our commitment to provide world class products to our high end customers. The current financial year started with challenges of high prices of cotton and frequent electricity and gas shut downs. Our energy bills are much higher compared to the previous years. However, with strong commitment, effective management planning and better business strategies




towards facing these challenges we have been successful in achieving excellent results. Nishat Apparel produces close to half a million garments every month making it one of the largest export oriented apparel units of the country under one roof. Professionalism, systematic approach, clear cut future strategies and investments in human resource are our hallmarks. This labor intensive project provides a great employment opportunity to a large number of households in the area.

Our future strategies include investments in building and machineries, thus increasing the capacities to well over 600,000 units per month. For this purpose we have already ordered world's best laundry machines and are in process of acquiring modernized equipment to add two new production lines. With these changes, continuous growth and tremendous customer support, we believe Nishat Apparel is now set to show even better results in future. Furthermore, during the current year, we have launched a fully operational product development department to create a client focused development process through research.

## Power Generation

Nishat Mills has installed most modern captive power plants at all its sites to keep running with a low cost power at all the divisions like Spinning, Weaving, Processing and Stitching and Garment units without any failures. Our own power generation facility has provided us with a huge competitive edge in the times of frequent power outages. This also played a vital role to maintain an extra ordinary record of timely shipments. The plants are based on natural gas fired generators which besides generating electricity, efficiently produce steam through exhaust gas and chilling through hot water from engine cooling system. This concept utilizes the fuel to the fullest. In order to mitigate the power crises being faced by the country, Nishat Mills is supplying surplus power from its different sites to PEPCO distribution companies.

| POWER PLANTS | GENERATION CAPACITY (MW) | DIESEL / FURNACE OIL ENGINES | GAS ENGINES | GAS / STEAM TURBINES |
|---|---|---|---|---|
| **FAISALABAD** | 31.38 | 2 | 5 | - |
| **BHIKKI** | 14.71 | 3 | 4 | 1 |
| **LAHORE** | 29.17 | 7 | 8 | 4 |
| **FEROZEWATWAN** | 9.7 | 4 | 4 | - |

## Information technology

We are fully focused to develop this key resource of the Company in line with the increasing requirements of the business. During the current year our Information Technology Division have concentrated on further extending and upgrading various parts of the IT infrastructure including upgrading computer systems and improving procedures. Our data management group spent significant time on introducing new IT systems in various processes as well as upgrading integration of running applications at various locations. We also introduced time management system and new costing systems at various locations. The network was expanded to new locations including Nishat Linen Shops. Network equipment was sufficiently upgraded and firewalls were replaced. During the year formal IT Policy including Disaster Recovery Plan was developed which was also approved by the Board of the Directors of the Company. Our entire IT division continues to work towards improving IT services and providing the best secure and stable technology environment to the Company.

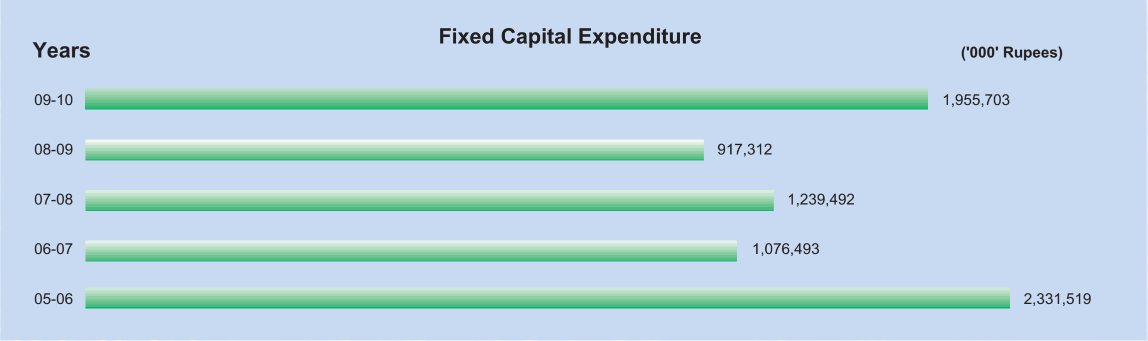
## Subsidiary Companies

### Nishat USA Incorporation

Nishat USA, Incorporation, a wholly owned subsidiary of Nishat Mills Limited, is a corporation service company incorporated on 22nd May, 2006 under the Business Corporation Law of The State of the New York. The registered office of the corporation is situated at 676 Broadway, New York, NY 10012, U.S.A. Nishat Mills Limited acquired 200 fully paid shares, with no par value per share, of capital stock of Nishat USA, Inc. on 1st October, 2008. Nishat USA Inc. is a liaison office of Nishat Mills Limited's marketing department and is providing marketing services in USA to Nishat Mills Limited.

### Nishat Power Limited

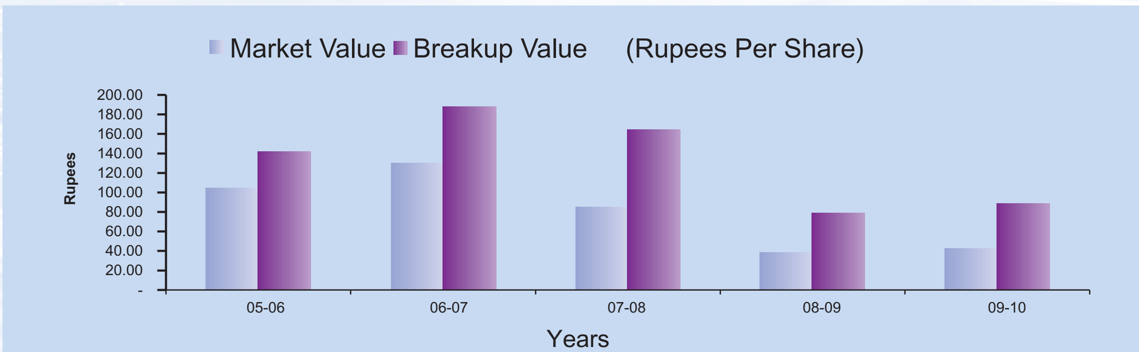
Nishat Power Limited, incorporated under the Companies Ordinance, 1984 on 23 Feb, 2007, is the subsidiary company of Nishat Mills Limited and is a public listed company. During the year, Nishat Mills Limited divested a percentage of its holding in Nishat Power Limited through offer for sale of 22,500,000 ordinary shares of its subsidiary on the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The principle business of the subsidiary is to build, own, operate and maintain a fuel power station having gross capacity of 200 MW in Jamber Kalan, Tehsil Pattoki, District Kasur, Punjab, Pakistan. Nishat Mills Limited owns and controls 56.85% shares of the Nishat Power Limited. The subsidiary has commenced its commercial production from June 9, 2010.




The Company has annexed its consolidated financial statements along with its separate financial statements, in accordance with the requirements of International Accounting Standards-27 (Consolidated and Separate Financial Statements).

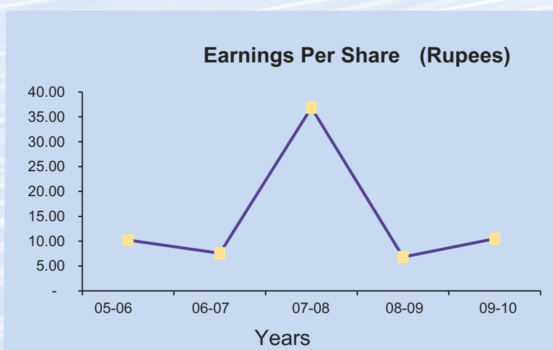
## Right issue of shares

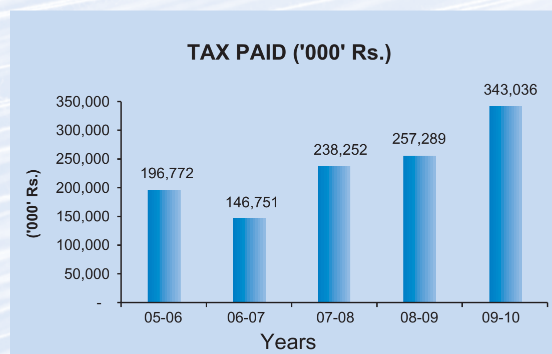
The Company issued 109,117,194 Ordinary Right Shares of Rs.10 each @ 45% to be paid at Rs. 40 per share including premium of Rs. 30 per share. Thus, the paid up capital of the Company has increased from Rs. 2,424,826,540 to Rs. 3,515,998,480 by issue of said right shares. The funds were utilized by the Company to earn higher dividend income through investments in power projects namely AES Lal Pir (Private) Limited and AES Pak Gen (Private) Company, production capacity enhancement and resultantly improved margins, strengthening of the equity and improved financial health and liquidity of the Company.




## Earnings per share

The earnings per share of the Company have increased to Rs. 10.50 in 2010 from Rs. 6.23 in 2009.




## Related parties

The transactions with related parties were carried out at arm's length prices determined in accordance with the comparable uncontrolled prices method. The Company has fully complied with best practices on Transfer Pricing as contained in the Listing Regulations of Stock Exchanges in Pakistan. The Statement of Compliance with the best practices on transfer pricing is enclosed.

## Corporate Governance

The Statement of Compliance with best practices of Code of Corporate Governance is annexed.

## Corporate and Financial Framework

In compliance of the Code of Corporate Governance, we give below statements on Corporate and Financial Reporting framework:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Accounting estimates are based on reasonable and prudent judgment. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. Value of investments in respect of retirement benefits fund:
   Provident Fund: 30th June, 2010: Rs. 1,228.438 Million Un-audited (2009: Rs. 1,042.310 Million-Audited)
9. During the year under review, eight meetings of the Board of Directors of the Company were held and the attendance position was as under:-

| Sr. # | Name of Director | | # of Meetings Attended |
|---|---|---|---|
| 1. | Mian Umer Mansha | (Chief Executive Officer/Chairman) | 7 |
| 2. | Mian Hassan Mansha | | 8 |
| 3. | Mr. Khalid Qadeer Qureshi | | 8 |
| 4. | Mr. Muhammad Asif | (Nominee NIT) | 8 |
| 5. | Mr. Muhammad Azam | | 7 |
| 6. | Mr. Muhammad Ali Zeb * | | 0 |
| 7. | Ms. Nabiha Shahnawaz Cheema | | 7 |

* Leave of absence was granted by the Board to Mr. Muhammad Ali Zeb for each meeting.

## Audit Committee

The Board of Directors of the Company in compliance with the Code of Corporate Governance has established an Audit Committee. The names of its members are given in the Company information.

## Auditors

The present auditors of the Company M/s Riaz Ahmed & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

## Pattern of shareholding and information under clause XIX (i) and (j) of the Code of Corporate Governance

The information under this head as on June 30, 2010 is annexed.

## Key operating and financial data

The key operating and financial data for last six years is annexed.

## Acknowledgment

The Board is pleased with the continued dedication and efforts of the employees of the Company.

**For and on behalf of the Board of Directors**

**(Mian Umer Mansha)**
**Chief Executive Officer / Chairman**
**Lahore: September 9, 2010**

# FINANCIAL HIGHLIGHTS

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | | | (Rupees in Thousands) | | | |
| **Profit & Loss** | | | | | | |
| Net Sales | 31,535,647 | 23,870,379 | 19,589,804 | 17,180,192 | 16,659,607 | 11,374,630 |
| Gross Profit | 5,980,185 | 4,351,541 | 2,811,746 | 2,844,938 | 2,957,981 | 2,134,899 |
| Profit before tax | 3,286,069 | 1,561,501 | 6,118,687 | 1,356,208 | 1,758,866 | 2,033,354 |
| Profit after tax | 2,915,461 | 1,268,001 | 5,857,587 | 1,211,208 | 1,632,866 | 1,867,354 |
| **Cash outflows** | | | | | | |
| Tax paid | 343,036 | 257,289 | 238,252 | 146,751 | 196,772 | 116,675 |
| Financial Charges Paid | 1,096,389 | 1,458,602 | 875,636 | 838,759 | 692,267 | 351,094 |
| Fixed capital expenditure | 1,955,703 | 917,312 | 1,239,492 | 1,076,493 | 2,331,519 | 1,743,535 |
| **Balance sheet** | | | | | | |
| Current assets | 11,732,928 | 8,294,838 | 8,818,379 | 13,309,087 | 9,743,720 | 7,746,417 |
| Current liabilities | 10,568,415 | 9,602,265 | 12,053,926 | 7,649,373 | 7,051,533 | 6,253,333 |
| Operating fixed assets – Owned | 11,476,005 | 11,102,355 | 11,188,560 | 10,309,611 | 8,398,310 | 7,926,838 |
| Total assets | 46,182,314 | 31,512,686 | 40,277,289 | 39,587,091 | 30,661,326 | 21,917,602 |
| Long term loans and finances | 2,980,694 | 2,334,411 | 1,321,912 | 1,773,820 | 3,015,384 | 2,858,155 |
| Shareholders' Equity | 31,376,313 | 19,330,767 | 26,492,070 | 30,163,898 | 20,594,409 | 12,806,114 |
| **Ratios** | | | | | | |
| Current ratio | 1.11 : 1 | 0.86 : 1 | 0.73 : 1 | 1.74 : 1 | 1.38 : 1 | 1.24 : 1 |
| Gearing ratio | 25.53 | 34.34 | 30.62 | 21.17 | 29.49 | 37.70 |
| Gross profit % | 18.96 | 18.23 | 14.35 | 16.56 | 17.76 | 18.77 |
| Net profit % (before tax) | 10.42 | 6.54 | 31.23 | 7.89 | 10.56 | 17.88 |
| Earnings per share | 10.50 | 6.23 | 36.86 | 7.58 | 10.22 | 12.86 |
| Proposed dividend % | 25 | 20 | 25 | 25 | 15 | 25 |
| Bonus % | - | - | - | 10 | - | - |
| **Production machines** | | | | | | |
| No. of Spindles | 199,502 | 198,120 | 189,960 | 189,960 | 183,576 | 183,416 |
| No of Sulzar Looms | 44 | 64 | 60 | 108 | 108 | 108 |
| No. of Airjet Looms | 619 | 565 | 565 | 532 | 484 | 482 |
| No. of Thermosole Dyeing machines | 5 | 5 | 5 | 5 | 4 | 4 |
| No. of Rotary Printing machines | 3 | 3 | 3 | 3 | 3 | 3 |

# PATTERN OF HOLDING

## OF THE SHARES HELD BY THE SHAREHOLDERS OF NISHAT MILLS LIMITED As At 30/06/2010

| NUMBER OF SHAREHOLDERS | SHAREHOLDING FROM | SHAREHOLDING TO | TOTAL SHARES HELD |
|---|---|---|---|
| 4,436 | 1 | 100 | 166,032 |
| 4,757 | 101 | 500 | 1,248,886 |
| 1,627 | 501 | 1,000 | 1,278,415 |
| 1,963 | 1,001 | 5,000 | 4,580,123 |
| 405 | 5,001 | 10,000 | 3,065,477 |
| 147 | 10,001 | 15,000 | 1,869,622 |
| 85 | 15,001 | 20,000 | 1,523,544 |
| 81 | 20,001 | 25,000 | 1,886,852 |
| 31 | 25,001 | 30,000 | 880,814 |
| 17 | 30,001 | 35,000 | 554,070 |
| 18 | 35,001 | 40,000 | 673,708 |
| 19 | 40,001 | 45,000 | 824,455 |
| 32 | 45,001 | 50,000 | 1,565,001 |
| 10 | 50,001 | 55,000 | 527,228 |
| 9 | 55,001 | 60,000 | 529,504 |
| 10 | 60,001 | 65,000 | 631,273 |
| 8 | 65,001 | 70,000 | 539,113 |
| 10 | 70,001 | 75,000 | 730,251 |
| 6 | 75,001 | 80,000 | 468,080 |
| 5 | 80,001 | 85,000 | 415,728 |
| 3 | 85,001 | 90,000 | 264,000 |
| 1 | 90,001 | 95,000 | 94,000 |
| 10 | 95,001 | 100,000 | 992,609 |
| 7 | 100,001 | 105,000 | 714,622 |
| 1 | 105,001 | 110,000 | 110,000 |
| 2 | 115,001 | 120,000 | 234,665 |
| 2 | 120,001 | 125,000 | 247,000 |
| 1 | 125,001 | 130,000 | 125,600 |
| 5 | 130,001 | 135,000 | 663,315 |
| 2 | 135,001 | 140,000 | 274,081 |
| 4 | 140,001 | 145,000 | 573,322 |
| 3 | 145,001 | 150,000 | 450,000 |
| 3 | 155,001 | 160,000 | 474,761 |
| 1 | 160,001 | 165,000 | 165,000 |
| 3 | 165,001 | 170,000 | 502,580 |
| 2 | 170,001 | 175,000 | 349,857 |
| 2 | 175,001 | 180,000 | 354,800 |
| 2 | 190,001 | 195,000 | 384,518 |
| 1 | 195,001 | 200,000 | 200,000 |
| 1 | 205,001 | 210,000 | 205,960 |
| 1 | 210,001 | 215,000 | 211,300 |
| 4 | 215,001 | 220,000 | 872,875 |
| 4 | 220,001 | 225,000 | 890,722 |
| 1 | 240,001 | 245,000 | 240,450 |
| 3 | 245,001 | 250,000 | 747,773 |
| 1 | 250,001 | 255,000 | 254,666 |
| 2 | 255,001 | 260,000 | 512,731 |
| 2 | 270,001 | 275,000 | 546,875 |
| 2 | 285,001 | 290,000 | 575,319 |

| NUMBER OF SHAREHOLDERS | SHAREHOLDING FROM | TO | TOTAL SHARES HELD |
|---|---|---|---|
| 1 | 290,001 | 295,000 | 292,001 |
| 1 | 305,001 | 310,000 | 307,092 |
| 1 | 310,001 | 315,000 | 313,170 |
| 2 | 345,001 | 350,000 | 693,838 |
| 2 | 360,001 | 365,000 | 726,500 |
| 2 | 365,001 | 370,000 | 734,039 |
| 1 | 370,001 | 375,000 | 372,000 |
| 2 | 380,001 | 385,000 | 763,415 |
| 1 | 395,001 | 400,000 | 400,000 |
| 1 | 400,001 | 405,000 | 404,000 |
| 1 | 415,001 | 420,000 | 417,500 |
| 2 | 420,001 | 425,000 | 842,713 |
| 2 | 430,001 | 435,000 | 866,500 |
| 1 | 495,001 | 500,000 | 496,957 |
| 1 | 505,001 | 510,000 | 505,750 |
| 1 | 525,001 | 530,000 | 529,125 |
| 1 | 540,001 | 545,000 | 541,750 |
| 1 | 560,001 | 565,000 | 563,417 |
| 1 | 565,001 | 570,000 | 565,757 |
| 1 | 600,001 | 605,000 | 605,000 |
| 1 | 615,001 | 620,000 | 619,279 |
| 1 | 625,001 | 630,000 | 629,324 |
| 1 | 655,001 | 660,000 | 656,759 |
| 1 | 670,001 | 675,000 | 671,395 |
| 1 | 720,001 | 725,000 | 723,694 |
| 1 | 735,001 | 740,000 | 735,150 |
| 1 | 750,001 | 755,000 | 751,654 |
| 1 | 760,001 | 765,000 | 763,000 |
| 1 | 775,001 | 780,000 | 775,895 |
| 1 | 805,001 | 810,000 | 808,535 |
| 1 | 825,001 | 830,000 | 830,000 |
| 1 | 830,001 | 835,000 | 833,698 |
| 1 | 835,001 | 840,000 | 837,500 |
| 1 | 860,001 | 865,000 | 861,300 |
| 1 | 865,001 | 870,000 | 870,000 |
| 3 | 895,001 | 900,000 | 2,700,000 |
| 1 | 920,001 | 925,000 | 924,411 |
| 1 | 945,001 | 950,000 | 945,255 |
| 1 | 960,001 | 965,000 | 961,134 |
| 1 | 965,001 | 970,000 | 966,145 |
| 1 | 975,001 | 9,800,000 | 979,000 |
| 1 | 990,001 | 995,000 | 993,864 |
| 2 | 995,001 | 1,000,000 | 2,000,000 |
| 1 | 1,060,001 | 1,065,000 | 1,061,285 |
| 1 | 1,070,001 | 1,075,000 | 1,074,185 |
| 1 | 1,240,001 | 1,245,000 | 1,242,500 |
| 1 | 1,245,001 | 1,250,000 | 1,248,829 |
| 1 | 1,255,001 | 1,260,000 | 1,258,650 |
| 1 | 1,300,001 | 1,305,000 | 1,302,500 |
| 1 | 1,315,001 | 1,320,000 | 1,320,000 |
| 1 | 1,360,001 | 1,365,000 | 1,362,130 |
| 1 | 1,365,001 | 1,370,000 | 1,369,514 |
| 1 | 1,395,001 | 1,400,000 | 1,400,000 |
| 1 | 1,415,001 | 1,420,000 | 1,419,565 |

| NUMBER OF SHAREHOLDERS | SHAREHOLDING FROM | TO | TOTAL SHARES HELD |
|---|---|---|---|
| 1 | 1,595,001 | 1,600,000 | 1,600,000 |
| 1 | 1,645,001 | 1,650,000 | 1,650,000 |
| 1 | 1,650,001 | 1,655,000 | 1,653,533 |
| 1 | 1,655,001 | 1,660,000 | 1,656,927 |
| 1 | 1,700,001 | 1,705,000 | 1,703,000 |
| 1 | 1,810,001 | 1,815,000 | 1,812,500 |
| 1 | 2,120,001 | 2,125,000 | 2,122,706 |
| 1 | 2,195,001 | 2,200,000 | 2,200,000 |
| 1 | 2,415,001 | 2,420,000 | 2,415,500 |
| 1 | 2,500,001 | 2,505,000 | 2,504,172 |
| 1 | 2,700,001 | 2,705,000 | 2,703,505 |
| 1 | 2,835,001 | 2,840,000 | 2,839,871 |
| 1 | 2,895,001 | 2,900,000 | 2,900,000 |
| 1 | 3,010,001 | 3,015,000 | 3,011,396 |
| 1 | 3,165,001 | 3,170,000 | 3,169,757 |
| 1 | 3,480,001 | 3,485,000 | 3,482,125 |
| 1 | 3,500,001 | 3,505,000 | 3,500,250 |
| 1 | 4,000,001 | 4,005,000 | 4,005,000 |
| 1 | 4,135,001 | 4,140,000 | 4,138,130 |
| 1 | 4,780,001 | 4,785,000 | 4,785,000 |
| 1 | 6,035,001 | 6,040,000 | 6,038,005 |
| 1 | 6,120,001 | 6,125,000 | 6,124,339 |
| 1 | 6,735,001 | 6,740,000 | 6,738,295 |
| 1 | 8,180,001 | 8,185,000 | 8,182,639 |
| 1 | 9,040,001 | 9,045,000 | 9,040,205 |
| 1 | 9,580,001 | 9,585,000 | 9,584,356 |
| 1 | 12,670,001 | 12,675,000 | 12,674,649 |
| 1 | 13,840,001 | 13,845,000 | 13,844,092 |
| 1 | 18,695,001 | 18,700,000 | 18,698,357 |
| 1 | 21,190,001 | 21,195,000 | 21,191,146 |
| 1 | 23,100,001 | 23,105,000 | 23,101,426 |
| 1 | 24,595,001 | 24,600,000 | 24,598,841 |
| 1 | 25,670,001 | 25,675,000 | 25,673,659 |
| 1 | 29,225,001 | 29,230,000 | 29,228,216 |
| **13,849** | | **TOTAL** | **351,599,848** |

| Categories of Members | Number | Shares Held | Percentage |
|---|---|---|---|
| Individuals | 13,424 | 187,605,624 | 53.36 |
| Investment Companies | 13 | 23,019 | 0.01 |
| Insurance Companies | 21 | 15,332,357 | 4.36 |
| Joint Stock Companies | 220 | 50,391,708 | 14.33 |
| Financial Institutions | 47 | 35,481,497 | 10.09 |
| Modaraba Companies | 65 | 22,576,954 | 6.42 |
| Foreign Investors | 29 | 38,372,832 | 10.91 |
| Miscellaneous | 30 | 1,815,857 | 0.52 |
| **Grand Total** | **13,849** | **351,599,848** | **100.00** |

# INFORMATION UNDER CLAUSE XIX ( I )
## OF THE CODE OF CORPORATE GOVERNANCE AS ON JUNE 30, 2010

| | | | SHARES HELD | PERCENT-TAGE |
|---|---|---|---|---|
| **( A )** | **ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES** | | | |
| | 1. D. G. KHAN CEMENT COMPANY LTD. | | 30,289,501 | 8.61 |
| | 2 ADAMJEE INSURANCE COMPANY LTD. | | 1,258,650 | 0.36 |
| **( B )** | **NIT AND ICP** | | | |
| | 1. NATIONAL BANK OF PAKISTAN - TRUSTEE DEPTT. | | 9,434,426 | 2.68 |
| | 2. INVESTMENT CORPORATION OF PAKISTAN | | 502,835 | 0.14 |
| **( C )** | **DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN** | | | |
| | 1. MIAN UMER MANSHA | CHIEF EXECUTIVE OFFICER / CHAIRMAN | 44,292,572 | 12.60 |
| | 2. MIAN HASSAN MANSHA | DIRECTOR | 44,372,016 | 12.62 |
| | 3. MS. NABIHA SHAHNAWAZ CHEEMA | DIRECTOR | 3,625 | 0.00 |
| | 4. MR. MUHAMMAD ALI ZEB | DIRECTOR | 3,625 | 0.00 |
| | 5. MR. KHALID QADEER QURESHI | DIRECTOR | 725 | 0.00 |
| **( D )** | **EXECUTIVES** | | NIL | - |
| **( E )** | **PUBLIC SECTOR, COMPANIES AND CORPORATIONS** | | | |
| | **JOINT STOCK COMPANIES** | | 50,415,208 | 14.33 |
| **( F )** | **BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS** | | | |
| | 1. INVESTMENT COMPANIES | | 23,019 | 0.01 |
| | 2. INSURANCE COMPANIES | | 15,332,357 | 4.36 |
| | 3. FINANCIAL INSTITUTIONS | | 35,481,497 | 10.09 |
| | 4. MODARABAS, MUTUAL FUNDS & LEASING COMPANIES, ETC., | | 22,553,454 | 6.42 |
| **( G )** | **SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTREST IN THE LISTED COMPANY** | | | |
| | 1. MIAN UMER MANSHA | CHIEF EXECUTIVE OFFICER / CHAIRMAN | 44,292,572 | 12.60 |
| | 2. MIAN HASSAN MANSHA | DIRECTOR | 44,372,016 | 12.62 |

# INFORMATION UNDER CLAUSE XIX ( j )
## OF THE CODE OF CORPORATE GOVERNANCE

| NAME OF CEO/DIRECTOR/CFO/COMPANY SECRETARY AND THEIR SPOUSE AND MINOR CHILDREN | | NO. OF SHARES PURCHASED | DATE | RATE (RS.) |
|---|---|---|---|---|
| Mr. Khalid Dadeer Qureshi - Director | PURCHASED | 500 | 03.03.2010 | 54.54 |
| Ms.Nabiha Shahnawaz Cheema - Director | SALE | 1,250 | 05.10.2009 | 67.90 |

# STATEMENT OF COMPLIANCE

## WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore & Islamabad 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. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes independent non-executive directors.

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

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

4. No casual vacancy occurred in the Board during the year.

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

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

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

8. The meetings of the Board were presided over by the Chairman and, in his absence, by one of the directors present elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Orientation course has been arranged during the year.

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

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

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

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

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

15. The audit committee is continued and it comprises 3 members, of whom, two are non-executive directors including the Chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review 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 of Pakistan.

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

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

**(MIAN UMER MANSHA)**
**CHIEF EXECUTIVE OFFICER/CHAIRMAN**
**NIC Number: 35202-0842523-5**

**LAHORE: September 9, 2010**

# STATEMENT OF COMPLIANCE WITH THE BEST
## PRACTICES ON TRANSFER PRICING FOR THE YEAR ENDED JUNE 30, 2010

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

**( MIAN UMER MANSHA )**
**CHIEF EXECUTIVE OFFICER/CHAIRMAN**
**NIC Number: 35202-0842523-5**

**LAHORE: September 9, 2010**

# REVIEW REPORT TO THE MEMBERS
## ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NISHAT MILLS LIMITED (“the Company”) for the year ended 30 June 2010, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Company’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company’s corporate governance procedures and risks.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2010.

**RIAZ AHMAD & COMPANY**
**Chartered Accountants**

**Name of engagement partner:**
**Sarfraz Mahmood**

**Date: September 9, 2010**

**LAHORE**

# FINANCIAL STATEMENTS

# AUDITORS' REPORT TO THE MEMBERS

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

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

b) in our opinion:

    i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in Note 2.1(d)(i) with which we concur;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 June 2010 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

**RIAZ AHMAD & COMPANY**
**Chartered Accountants**

**Name of engagement partner:**
**Sarfraz Mahmood**

**Date: September 9, 2010**

**LAHORE**

# BALANCE SHEET AS AT 30 JUNE 2010

| | Note | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| **Authorised share capital** | | | |
| 1,100,000,000 (2009: 1,100,000,000) ordinary shares of Rupees 10 each | | **11,000,000** | 11,000,000 |
| **Issued, subscribed and paid up share capital** | 3 | **3,515,999** | 2,424,827 |
| **Reserves** | 4 | **27,860,314** | 16,905,940 |
| **Total equity** | | **31,376,313** | 19,330,767 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term financing | 5 | **2,980,694** | 2,334,411 |
| Deferred tax | 6 | **1,256,892** | 245,243 |
| | | **4,237,586** | 2,579,654 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 7 | **2,139,321** | 1,309,658 |
| Accrued mark-up | 8 | **232,247** | 202,777 |
| Short term borrowings | 9 | **6,649,447** | 7,342,600 |
| Current portion of long term financing | 5 | **1,128,632** | 433,313 |
| Provision for taxation | | **418,768** | 313,917 |
| | | **10,568,415** | 9,602,265 |
| **TOTAL LIABILITIES** | | **14,806,001** | 12,181,919 |
| CONTINGENCIES AND COMMITMENTS | 10 | | |
| **TOTAL EQUITY AND LIABILITIES** | | **46,182,314** | 31,512,686 |

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

**CHIEF EXECUTIVE OFFICER**

| | Note | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **11,841,667** | 11,199,635 |
| Investment properties | 12 | **132,550** | 41,049 |
| Long term investments | 13 | **21,959,543** | 11,952,949 |
| Long term loans | 14 | **498,803** | 12,367 |
| Long term deposits and prepayments | 15 | **16,823** | 11,848 |
| | | **34,449,386** | 23,217,848 |
| **CURRENT ASSETS** | | | |
| Stores, spare parts and loose tools | 16 | **688,832** | 561,251 |
| Stock in trade | 17 | **6,060,441** | 4,092,512 |
| Trade debts | 18 | **2,041,256** | 1,300,366 |
| Loans and advances | 19 | **504,046** | 462,025 |
| Short term deposits and prepayments | 20 | **31,912** | 29,880 |
| Other receivables | 21 | **724,407** | 323,000 |
| Accrued interest | 22 | **16,906** | - |
| Short term investments | 23 | **1,554,543** | 1,414,310 |
| Cash and bank balances | 24 | **110,585** | 111,494 |
| | | **11,732,928** | 8,294,838 |
| **TOTAL ASSETS** | | **46,182,314** | 31,512,686 |

**DIRECTOR**

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 30 JUNE 2010

| | Note | 2010 (RUPEES IN THOUSAND) | 2009 (RUPEES IN THOUSAND) |
|---|---|---|---|
| SALES | 25 | **31,535,647** | 23,870,379 |
| COST OF SALES | 26 | **(25,555,462)** | (19,518,838) |
| GROSS PROFIT | | **5,980,185** | 4,351,541 |
| DISTRIBUTION COST | 27 | **(1,714,598)** | (1,315,630) |
| ADMINISTRATIVE EXPENSES | 28 | **(545,166)** | (435,012) |
| OTHER OPERATING EXPENSES | 29 | **(289,080)** | (191,608) |
| | | **(2,548,844)** | (1,942,250) |
| | | **3,431,341** | 2,409,291 |
| OTHER OPERATING INCOME | 30 | **981,650** | 599,006 |
| PROFIT FROM OPERATIONS | | **4,412,991** | 3,008,297 |
| FINANCE COST | 31 | **(1,126,922)** | (1,446,796) |
| PROFIT BEFORE TAXATION | | **3,286,069** | 1,561,501 |
| PROVISION FOR TAXATION | 32 | **(370,608)** | (293,500) |
| PROFIT AFTER TAXATION | | **2,915,461** | 1,268,001 |
| EARNINGS PER SHARE- BASIC AND DILUTED (RUPEES) | 33 | **10.50** | 6.23 |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2010

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **PROFIT AFTER TAXATION** | **2,915,461** | 1,268,001 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Surplus / (deficit) arising on remeasurement of available for sale investments | **6,314,129** | (10,191,299) |
| Reclassification adjustments for gains included in profit or (loss) | **(52,118)** | - |
| Deferred income tax relating to surplus on available for sale investments | **(1,011,649)** | 164,138 |
| Other comprehensive income / (loss) for the year - net of tax | **5,250,362** | (10,027,161) |
| **TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR** | **8,165,823** | (8,759,160) |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# CASH FLOW STATEMENT
**FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | 2010 (RUPEES IN THOUSAND) | 2009 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 34 | **2,386,569** | 3,866,324 |
| Finance cost paid | | **(1,096,389)** | (1,458,602) |
| Income tax paid | | **(343,036)** | (257,289) |
| Gratuity paid | | **-** | (3,746) |
| Exchange gain on forward exchange contract received | | **64,725** | - |
| Net increase in long term loans | | **(19,570)** | (7,214) |
| Net increase in long term deposits and prepayments | | **(4,106)** | (1,109) |
| **Net cash generated from operating activities** | | **988,193** | 2,138,364 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure on property, plant and equipment | | **(1,955,542)** | (917,312) |
| Proceeds from sale of property, plant and equipment | | **145,490** | 29,784 |
| Investments made | | **(4,249,397)** | (1,780,424) |
| Proceeds from sale of investment | | **430,000** | 30,000 |
| Long term loan to subsidiary company | | **(472,885)** | - |
| Interest received on loan to subsidiary company | | **22,331** | - |
| Dividends received | | **559,134** | 509,552 |
| **Net cash used in investing activities** | | **(5,520,869)** | (2,128,400) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long term financing | | **1,937,415** | 1,175,000 |
| Repayment of long term financing | | **(595,813)** | (758,113) |
| Proceeds from issue of right shares | | **4,364,688** | 1,997,321 |
| Short term borrowings - net | | **(693,153)** | (1,995,974) |
| Dividend paid | | **(481,370)** | (393,253) |
| **Net cash from financing activities** | | **4,531,767** | 24,981 |
| **Net (decrease) / increase in cash and cash equivalents** | | **(909)** | 34,945 |
| **Cash and cash equivalents at the beginning of the year** | | **111,494** | 76,549 |
| **Cash and cash equivalents at the end of the year** | | **110,585** | 111,494 |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

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

(RUPEES IN THOUSAND)

| | SHARE CAPITAL | RESERVES | | | | | | | | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|
| | | CAPITAL RESERVES | | | REVENUE RESERVES | | | | TOTAL | |
| | | Premium on issue of right shares | Fair value reserve | Sub Total | General reserve | Amalgamation reserve | Unappro-priated profit | Sub Total | | |
| **Balance as at 30 June 2008** | 1,597,857 | 1,027,622 | 10,428,151 | 11,455,773 | 7,974,028 | 476,105 | 4,988,307 | 13,438,440 | 24,894,213 | 26,492,070 |
| Final dividend for the year ended 30 June 2008 @ Rupees 2.5 per share | - | - | - | - | - | - | (399,464) | (399,464) | (399,464) | (399,464) |
| Transfer to general reserve | - | - | - | - | 4,870,000 | - | (4,870,000) | - | - | - |
| Issue of shares under scheme of amalgamation | 28,041 | - | - | - | - | (28,041) | - | (28,041) | (28,041) | - |
| Excess of net assets acquired in Nishat Apparel Limited | - | - | - | - | - | (448,064) | 448,064 | - | - | - |
| Right shares issued during the year ended 30 June 2009 | 798,929 | 1,198,392 | - | 1,198,392 | - | - | - | - | 1,198,392 | 1,997,321 |
| Total comprehensive loss for the year ended 30 June 2009 | - | - | (10,027,161) | (10,027,161) | - | - | 1,268,001 | 1,268,001 | (8,759,160) | (8,759,160) |
| **Balance as at 30 June 2009** | 2,424,827 | 2,226,014 | 400,990 | 2,627,004 | 12,844,028 | - | 1,434,908 | 14,278,936 | 16,905,940 | 19,330,767 |
| Final dividend for the year ended 30 June 2009 @ Rupees 2 per share | - | - | - | - | - | - | (484,965) | (484,965) | (484,965) | (484,965) |
| Transfer to general reserve | - | - | - | - | 948,000 | - | (948,000) | - | - | - |
| Right shares issued during the year ended 30 June 2010 | 1,091,172 | 3,273,516 | - | 3,273,516 | - | - | - | - | 3,273,516 | 4,364,688 |
| Total comprehensive income for the year ended 30 June 2010 | - | - | 5,250,362 | 5,250,362 | - | - | 2,915,461 | 2,915,461 | 8,165,823 | 8,165,823 |
| **Balance as at 30 June 2010** | 3,515,999 | 5,499,530 | 5,651,352 | 11,150,882 | 13,792,028 | - | 2,917,404 | 16,709,432 | 27,860,314 | 31,376,313 |

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

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

## 1. THE COMPANY AND ITS OPERATIONS

Nishat Mills Limited is a public limited Company incorporated in Pakistan under the Companies Act, 1913 (Now Companies Ordinance, 1984) and listed on all Stock Exchanges in Pakistan. Its registered office is situated at 53-A Lawrence Road, Lahore. The Company is engaged in the business of textile manufacturing and of spinning, combing, weaving, bleaching, dyeing, printing, stitching, apparel, buying, selling and otherwise dealing in yarn, linen, cloth and other goods and fabrics made from raw cotton, synthetic fibre and cloth and to generate, accumulate, distribute, supply and sell electricity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of Preparation

#### a) Statement of compliance

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

#### b) Accounting convention

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

#### c) Critical accounting estimates and judgments

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

**Financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on conditions existing at balance sheet date.

**Useful lives, patterns of economic benefits and impairments**

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

**Taxation**

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

**Provision for doubtful debts**

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

**Impairment of investments in subsidiaries and equity method accounted associated companies**

In making an estimate of recoverable amount of the Company's investments in subsidiaries and equity method accounted associated companies, the management considers future cash flows.

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

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

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

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

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

**ii) Other amendments to published approved accounting standards that are effective in the current year**

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset. The Company's accounting policy on borrowing cost, as disclosed in note 2.9, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Company's accounting policy.

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

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

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

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

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

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

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

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

## 2.2 Employee Benefit

The Company operates an approved funded provident fund scheme covering all permanent employees. Equal monthly contributions are made both by the Company and employees at the rate of 9.5 percent of the basic salary to the fund. The Company's contributions to the fund are charged to profit and loss account.

## 2.3 Taxation

### Current

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

### Deferred

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

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

## 2.4 Foreign currencies

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

## 2.5 Property, plant, equipment and depreciation

### Owned

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

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

### Depreciation

Depreciation on property, plant and equipment is charged to profit and loss account applying the reducing balance method so as to write off the cost / depreciable amount of the assets over their estimated useful lives at the rates given in Note 11.1. The Company charges the depreciation on additions from the date when the asset is available for use and on deletions upto the date when the asset is de-recognized. The residual values and useful lives are reviewed by the management, at each financial year-end and adjusted if impact on depreciation is significant.

### De-recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the profit and loss account in the year the asset is de-recognized.

## 2.6 Investment Properties

Land and buildings held for capital appreciation or to earn rental income are classified as investment properties. Investment properties except land, are stated at cost less accumulated depreciation and any recognized impairment loss (if any). Land is stated at cost less any recognized impairment loss (if any). Depreciation is charged to profit and loss account applying the reducing balance method so as to write off the cost of building over its estimated useful life at a rate of 10%.

## 2.7 Investments

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

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

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

### a) Investment at fair value through profit or loss

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

### b) Held-to-maturity

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

### c) Investment in subsidiaries

Investments in subsidiaries are stated at cost less impairment loss, if any, in accordance with the provisions of IAS 27 'Consolidated and Separate Financial Statements'.

### d) Investment in associates - (with significant influence)

The Company is required to prepare separate financial statements, hence, in accordance with the requirements of IAS-27 'Consolidated and Separate Financial Statements', the investments in associated undertakings are accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and are classified as available for sale.

e) **Available-for-sale**

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

**Quoted**

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

**Unquoted**

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

## 2.8 Inventories

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

**Stores, spare parts and loose tools**

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

**Stock-in-trade**

Cost of raw material, work-in-process and finished goods is determined as follows:

| | | |
|---|---|---|
| (i) | For raw materials: | Annual average basis. |
| (ii) | For work-in-process and finished goods: | Average manufacturing cost including a portion of production overheads. |

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

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

## 2.9 Borrowing cost

Interest, mark-up and other charges on long-term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long-term finances. All other interest, mark-up and other charges are recognized in profit and loss account.

## 2.10 Share Capital

Ordinary shares are classified as share capital.

## 2.11 Revenue recognition

Revenue from different sources is recognized as under:

- Revenue from sale of goods is recognized on dispatch of goods to customers.
- Revenue on sale of electricity is recognized at the time of transmission.
- Dividend on equity investments is recognized when right to receive the dividend is established.
- Profit on deposits with banks is recognized on time proportion basis taking into account the amounts outstanding and rates applicable thereon.

## 2.12 Financial instruments

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

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

### a) Trade and other receivables

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

## b) Borrowings

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

## c) Trade and other payables

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

## 2.13 Provisions

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

## 2.14 Impairment

## a) Financial assets

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

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

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

## b) Non financial assets

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

## 2.15 Derivative financial instruments

Derivative that do not qualify for hedge accounting are recognized in the balance sheet at estimated fair value with corresponding effect to profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

### 2.16 Off setting

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

### 2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks on current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

### 2.18 Segment reporting

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

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

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

Transaction among the business segments are recorded at cost basis. Inter segment sales and purchases are eliminated from the total.

### 2.19 Related party transactions and transfer pricing

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

### 2.20 Dividend and other appropriations

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

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

| (NUMBER OF SHARES) 2010 | 2009 | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|---|
| **256,772,316** | 147,655,122 | Ordinary shares of Rupees 10 each fully paid up in cash | **2,567,723** | 1,476,551 |
| **2,804,079** | 2,804,079 | Ordinary shares of Rupees 10 each issued to shareholders of Nishat Apparel Limited under the Scheme of Amalgamation | **28,041** | 28,041 |
| **37,252,280** | 37,252,280 | Ordinary shares of Rupees 10 each issued as fully paid for consideration other than cash | **372,523** | 372,523 |
| **54,771,173** | 54,771,173 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | **547,712** | 547,712 |
| **351,599,848** | 242,482,654 | | **3,515,999** | 2,424,827 |

### 3.1 Movement during the year

| | | | | |
|---|---|---|---|---|
| **242,482,654** | 159,785,717 | At 01 July | **2,424,827** | 1,597,857 |
| **-** | 2,804,079 | Ordinary shares of Rupees 10 each issued to shareholders of Nishat Apparel Limited under the Scheme of Amalgamation | **-** | 28,041 |
| **109,117,194** | 79,892,858 | Ordinary shares of Rupees 10 each issued during the year as fully paid right shares | **1,091,172** | 798,929 |
| **351,599,848** | 242,482,654 | | **3,515,999** | 2,424,827 |

**3.2** Ordinary shares of the Company held by associated companies:

| | (NUMBER OF SHARES) 2010 | 2009 |
|---|---|---|
| D.G. Khan Cement Company Limited | **30,289,501** | 20,889,312 |
| Adamjee Insurance Company Limited | **1,258,650** | 868,035 |
| | **31,548,151** | 21,757,347 |

| | 2010 | 2009 |
|---|---|---|
| | (RUPEES IN THOUSAND) | |

## 4. RESERVES

**Composition of reserves is as follows:**

| | 2010 | 2009 |
|---|---|---|
| **Capital** | | |
| Premium on issue of right shares (Note 4.1) | **5,499,530** | 2,226,014 |
| Fair value reserve - net of deferred tax (Note 4.2) | **5,651,352** | 400,990 |
| | **11,150,882** | 2,627,004 |
| **Revenue** | | |
| General | **13,792,028** | 12,844,028 |
| Unappropriated profit | **2,917,404** | 1,434,908 |
| | **16,709,432** | 14,278,936 |
| | **27,860,314** | 16,905,940 |

**4.1** This reserve can be utilised by the Company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

**4.2** This represents the unrealized gain on re-measurement of available for sale equity investments at fair value and is not available for distribution. This will be transferred to profit and loss account on realization. Reconciliation of fair value reserve net of deferred tax is as under:

| | 2010 | 2009 |
|---|---|---|
| Balance as at 01 July | **646,233** | 10,837,532 |
| Add / (Less): Fair value adjustment during the year | **6,262,011** | (10,191,299) |
| | **6,908,244** | 646,233 |
| Less: Deferred tax liability on unquoted equity investments | **1,256,892** | 245,243 |
| Balance as at 30 June | **5,651,352** | 400,990 |

## 5. LONG TERM FINANCING

**From banking companies - secured**

| | 2010 | 2009 |
|---|---|---|
| Long term loans (Note 5.1) | **3,309,326** | 2,767,724 |
| Long term musharika (Note 5.2) | **800,000** | - |
| | **4,109,326** | 2,767,724 |
| Less: Current portion shown under current liabilities | **1,128,632** | 433,313 |
| | **2,980,694** | 2,334,411 |

### 5.1 Long term loans

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Allied Bank Limited | **225,000** | 300,000 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 24 January 2007 and ending on 24 October 2011. | - | Quarterly | First joint pari passu hypothecation charge on plant and machinery of the Company for an amount of Rupees 800 million. |
| United Bank Limited | **37,500** | 112,500 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 30 June 2006 and ending on 31 December 2010. | - | Quarterly | Mortgage charge on the immovable property and machinery of the Company. |
| Habib Bank Limited | **400,000** | 500,000 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 07 July 2007 and ending on 07 January 2012. | - | Quarterly | First pari passu hypothecation charge of Rupees 1,067 million on plant and machinery of the Company excluding specific and exclusive charges. |
| Saudi Pak Industrial and Agricultural Investment Company (Private) Limited | **187,500** | 200,000 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 30 April 2010 and ending on 31 January 2014. | - | Quarterly | Exclusive hypothecation charge on specific plant and machinery for an amount of Rupees 267 million. |
| Standard Chartered Bank (Pakistan) Limited | **-** | 33,333 | SBP rate for LTF - EOP + 2% | Six equal half yearly instalments commenced on 30 September 2006 and ended on 31 March 2010. | - | Quarterly | First exclusive hypothecation charge on plant, machinery and equipment installed at Sheikhupura (Bhikki). |
| Citibank N.A. | **62,500** | 125,000 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 21 April 2006 and ending on 21 October 2010. | - | Quarterly | First ranking pari passu charge on all present and future fixed assets, excluding land and building. |
| The Royal Bank of Scotland Limited | **35,294** | 58,824 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 15 February 2006 and ending on 15 February 2011. | - | Quarterly | First pari passu charge on plant and machinery for an amount of Rupees 267 million. |
| The Hong Kong and Shanghai Banking Corporation Limited | **100,000** | 125,000 | SBP rate for LTF - EOP + 2% | Ten equal half yearly instalments commenced on 01 December 2006 and ending on 01 June 2011. | - | Quarterly | Registered ranking charge on plant and machinery of the Company. |
| Habib Bank limited<br>Loan provided by the bank from own sources | **752,857** | 1,000,000 | 6 Month offer KIBOR + 2.50% | Eight equal half yearly instalments commenced on 10 May 2010 and ending on 10 November 2013. | Half yearly | Quarterly | First pari-passu hypothecation charge of Rupees 2,000 million on plant and machinery of the Company excluding specific and exclusive charges. |
| Refinanced by SBP under scheme of LTFF | **122,143** | - | SBP rate for LTFF+ 2.5% | Eight equal half yearly instalments commenced on 09 May 2010 and ending on 09 November 2013. | - | Quarterly | |
| | **875,000** | 1,000,000 | | | | | |
| Allied Bank Limited | **98,047** | 122,558 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 15 November 2007 and ending on 08 May 2012. | - | Quarterly | First pari passu charge of Rupees 267 million on all present and future fixed assets of the Company excluding land and building. |
| Allied Bank Limited | **50,000** | 75,000 | 6 Month offer KIBOR+1.50 % | Eight equal half yearly instalments commenced on 07 October 2008 and ending on 07 April 2012. | Half yearly | Quarterly | First pari passu charge of Rupees 133 million on all present and future fixed assets of the Company excluding land and building. |
| Askari Bank Limited | **101,070** | 115,509 | SBP rate for LTF - EOP + 2% | Ten equal half yearly instalments commenced on 17 January 2008 and ending on 01 November 2013. | - | Quarterly | First pari passu charge of Rupees 213.33 million on all present and future fixed assets of the Company. |

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| | **(Rupees in thousand)** | | | | | | |
| Samba Bank Limited | | | | | | | |
| Loan provided by the bank from own sources | **421,282** | - | 6 Month offer KIBOR+1.25% | Eight equal half yearly instalments commencing on 30 June 2011 and ending on 31 December 2014. | Half yearly | Half yearly | First pari passu hypothecation charge on all present and future plant and machinery of the Company (excluding land and building and any other fixed assets under exclusive charge of any bank) to the extent of Rupees 667 million with 25% margin. |
| Refinanced by SBP under scheme of LTFF | **78,718** | - | SBP rate for LTFF + 2.5% | Eight equal half yearly instalments commencing on 27 July 2011 and ending on 27 January 2015. | - | Quarterly | |
| | **500,000** | - | | | | | |
| Silk Bank Limited | **102,188** | - | SBP rate for LTFF + 2.5% | Sixteen equal quarterly instalments commencing on 31 March 2011 and ending on 31 December 2014. | - | Quarterly | Ranking charge on plant and machinery of the Company (excluding those assets on which the Company has provided first exclusive charge to its various lenders) for Rupees 135 million. |
| Pak Brunei Investment Company Limited | **235,227** | - | SBP rate for LTFF+ 2.25% | Twelve half yearly instalments on 19 July 2011 and ending on 19 January 2017. | - | Quarterly | Ranking charge by way of hypothecation over all the present and future plant and machinery of the Company excluding those assets (part of the plant and machinery) on which the Company has created exclusive charges. |
| Pakistan Kuwait Investment Company (Private) Limited | | | | | | | |
| Refinanced by SBP under scheme of LTFF | **149,979** | - | SBP rate for LTFF+ 2.5% | Eighteen equal quarterly instalments commencing on 09 December 2010 and ending on 09 March 2015. | - | Quarterly | Ranking charge of Rupees 400 million on plant, machinery and equipment of the Company with 25 % margin |
| Loan provided by the investment company from own sources | **150,021** | - | 6 Month offer KIBOR+2% | Eighteen equal quarterly instalments commencing on 09 December 2010 and ending on 09 March 2015. | Half yearly | Quarterly | |
| | **300,000** | - | | | | | |
| | **3,309,326** | 2,767,724 | | | | | |

**5.2 Long term musharika**

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| Meezan Bank Limited | **300,000** | - | 3 Month offer KIBOR+1.25% | Eight equal quarterly instalments commencing on 29 March 2011 and ending on 29 December 2012. | Quarterly | Quarterly | Exclusive charge on specific plant and machinery at least equal to outstanding facility amount plus 25% margin thereof. |
| Standard Chartered Bank (Pakistan) Limited | **500,000** | - | 6 Month offer KIBOR+1.25% margin for first two years and 1.75% margin for remaining period | Eight equal half yearly instalments commencing on 12 October 2011 and ending on 12 April 2015. | Half yearly | Half yearly | Registered first charge amounting to Rupees 667 million on specific fixed assets of the Company. |
| | **800,000** | - | | | | | |

## 6. DEFERRED TAX

This represents deferred tax liability on surplus on revaluation of unquoted equity investments available for sale. Provision for deferred tax on other temporary differences was not considered necessary as the Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001.

## 7. TRADE AND OTHER PAYABLES

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Creditors (Note 7.1) | **1,287,902** | 656,404 |
| Accrued liabilities | **442,349** | 426,618 |
| Advances from customers | **114,617** | 63,744 |
| Securities from contractors-interest free, repayable on completion of contracts | **18,275** | 15,718 |
| Income tax deducted at source | **3,307** | 3,849 |
| Dividend payable | **31,775** | 28,180 |
| Payable to employees provident fund trust | **932** | 1,156 |
| Workers' profit participation fund (Note 7.2) | **173,101** | 82,641 |
| Workers' welfare fund | **67,063** | 31,348 |
| | **2,139,321** | 1,309,658 |

**7.1** This includes amount of Rupees 2.316 million (2009: 1.376 million) due to Nishat USA Inc. - subsidiary company and amounts in aggregate of Rupees 29.498 million (2009: Rupees 17.429 million) due to associated undertakings.

### 7.2 Workers' profit participation fund

| | 2010 | 2009 |
|---|---|---|
| Balance as on 01 July | **82,641** | 70,497 |
| Interest for the year (Note 31) | **1,053** | 2,787 |
| Add: Provision for the year (Note 29) | **173,101** | 82,641 |
| | **256,795** | 155,925 |
| Less: Payments during the year | **83,694** | 73,284 |
| | **173,101** | 82,641 |

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 8. ACCRUED MARK-UP

| | 2010 | 2009 |
|---|---|---|
| Long term financing | **105,827** | 74,480 |
| Short term borrowings | **126,420** | 128,297 |
| | **232,247** | 202,777 |

## 9. SHORT TERM BORROWINGS

**From banking companies - secured**

| | 2010 | 2009 |
|---|---|---|
| Short term running finances (Note 9.1 and 9.2) | **232,827** | 1,514,025 |
| State Bank of Pakistan (SBP) refinance (Note 9.1 and 9.3) | **6,114,243** | 4,263,132 |
| Other short term finances (Note 9.1 and 9.4) | **-** | 1,080,000 |
| Temporary bank overdrafts (Note 9.1 and 9.2) | **302,377** | 485,443 |
| | **6,649,447** | 7,342,600 |

**9.1** These finances are obtained from banking companies under mark up arrangements and are secured against joint pari passu hypothecation charge on all present and future current assets, all marketable securities, other instruments, ranking hypothecation charge on plant and machinery, pledge of cotton and equity investments of the Company. These form part of total credit facility of Rupees 19,569 million (2009: Rupees 20,077 million).

**9.2** The rates of mark-up range from 12.39% to 16.11% (2009: 12.37% to 18.50%) per annum on the balance outstanding.

**9.3** The rates of mark up range from 7.00% to 9.00% (2009: 6.90% to 7.50%) per annum on the balance outstanding.

**9.4** The rates of mark up range from 11.68% to 13.60% (2009: 4.26% to 16.11%) per annum on the balance outstanding.

## 10. CONTINGENCIES AND COMMITMENTS

**a) Contingencies**

**i)** The Company is contingently liable for Rupees 87.378 million (2009: Rupees 86.313 million) on account of central excise duty not acknowledged as debt as the cases are pending before Court.

**ii)** Guarantees of Rupees 472.398 million (2009: Rupees 421.751 million) are given by the banks of the Company to Sui Northern Gas Pipelines Limited against gas connections, Shell Pakistan Limited against purchase of furnace oil, Director Excise and Taxation, Karachi and Collector of Customs, Excise and Sales Tax against infrastructure cess.

**iii)** Post dated cheques of Rupees 537.000 million (2009: Rupees 284.473 million) are issued to customs authorities in respect of duties on imported items availed on the basis of consumption and export plans. If documents of exports are not provided on due dates, cheques issued as security shall be encashable.

**iv)** The Company has given following guarantees on behalf of Nishat Power Limited - subsidiary company:

**(a)** Performance guarantee of USD 1 million [Pak Rupees 85.600 million] (2009: USD 1 million [Pak Rupees 81.470 million]) in favour of Private Power and Infrastructure Board to secure performance of Nishat Power Limited under Implementation Agreement and Power Purchase Agreement.

**(b)** Irrevocable standby letters of credit of Rupees 430 million (2009: Rupees 410 million) for equity injection and Rupees Nil (2009: Rupees 147.120 million) for positive cost overrun, in accordance with Project Funds Agreement, in favour of security trustee of syndicated lenders of Nishat Power Limited.

**b) Commitments**

**i)** Contracts for capital expenditure are approximately of Rupees 935.095 million (2009: Rupees 161.498 million).

**ii)** Letters of credit other than for capital expenditure are Rupees 313.142 million (2009: Rupees 296.719 million).

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **11. PROPERTY, PLANT AND EQUIPMENT** | | |
| Operating assets (Note 11.1) | **11,476,005** | 11,102,355 |
| Capital work in progress (Note 11.2) | **365,662** | 97,280 |
| | **11,841,667** | 11,199,635 |

## 11.1 Operating assets

| | Freehold land | Buildings on freehold land | Plant and machinery | Electric Installations | Factory equipment | Furniture, fixtures and office equipment | Computer equipment | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | (RUPEES IN THOUSAND) |
| **At 01 July 2008** | | | | | | | | | |
| Cost | 434,180 | 3,484,670 | 13,188,696 | 641,972 | 155,671 | 224,657 | 102,403 | 252,818 | 18,485,067 |
| Accumulated depreciation | - | (1,443,976) | (5,211,863) | (309,741) | (71,172) | (100,937) | (58,395) | (100,423) | (7,296,507) |
| Net book value | 434,180 | 2,040,694 | 7,976,833 | 332,231 | 84,499 | 123,720 | 44,008 | 152,395 | 11,188,560 |
| **Year ended 30 June 2009** | | | | | | | | | |
| Opening net book value | 434,180 | 2,040,694 | 7,976,833 | 332,231 | 84,499 | 123,720 | 44,008 | 152,395 | 11,188,560 |
| Additions | 58,761 | 141,776 | 770,065 | 18,804 | 31,974 | 26,910 | 6,180 | 47,610 | 1,102,080 |
| Transfer to investment properties: | | | | | | | | | |
| Cost | (18,756) | (46,090) | - | - | - | - | - | - | (64,846) |
| Accumulated depreciation | - | 21,209 | - | - | - | - | - | - | 21,209 |
| | (18,756) | (24,881) | - | - | - | - | - | - | (43,637) |
| Disposals: | | | | | | | | | |
| Cost | - | - | (38,608) | (9,398) | (6,612) | (2,230) | - | (28,564) | (85,412) |
| Accumulated depreciation | - | - | 25,848 | 7,742 | 4,591 | 1,649 | - | 17,865 | 57,695 |
| | - | - | (12,760) | (1,656) | (2,021) | (581) | - | (10,699) | (27,717) |
| Depreciation charge | - | (207,765) | (807,320) | (33,846) | (9,332) | (13,372) | (14,036) | (31,260) | (1,116,931) |
| Closing net book value | 474,185 | 1,949,824 | 7,926,818 | 315,533 | 105,120 | 136,677 | 36,152 | 158,046 | 11,102,355 |
| **At 30 June 2009** | | | | | | | | | |
| Cost | 474,185 | 3,580,356 | 13,920,153 | 651,378 | 181,033 | 249,337 | 108,583 | 271,864 | 19,436,889 |
| Accumulated depreciation | - | (1,630,532) | (5,993,335) | (335,845) | (75,913) | (112,660) | (72,431) | (113,818) | (8,334,534) |
| Net book value | 474,185 | 1,949,824 | 7,926,818 | 315,533 | 105,120 | 136,677 | 36,152 | 158,046 | 11,102,355 |
| **Year ended 30 June 2010** | | | | | | | | | |
| Opening net book value | 474,185 | 1,949,824 | 7,926,818 | 315,533 | 105,120 | 136,677 | 36,152 | 158,046 | 11,102,355 |
| Additions | 144,262 | 144,833 | 1,259,480 | 16,322 | 16,509 | 18,842 | 15,237 | 71,836 | 1,687,321 |
| Transfer to investment properties: | | | | | | | | | |
| Cost | (56,632) | (46,048) | - | - | - | - | - | - | (102,680) |
| Accumulated depreciation | - | 4,827 | - | - | - | - | - | - | 4,827 |
| | (56,632) | (41,221) | - | - | - | - | - | - | (97,853) |
| Transfer: | | | | | | | | | |
| Cost | - | - | (14,506) | - | - | - | - | 14,506 | - |
| Accumulated depreciation | - | - | 8,583 | - | - | - | - | (8,583) | - |
| | - | - | (5,923) | - | - | - | - | 5,923 | - |
| Disposals: | | | | | | | | | |
| Cost | - | - | (301,931) | (10,245) | (1,713) | (693) | (132) | (25,608) | (340,322) |
| Accumulated depreciation | - | - | 200,515 | 6,879 | 1,335 | 567 | 82 | 14,808 | 224,186 |
| | - | - | (101,416) | (3,366) | (378) | (126) | (50) | (10,800) | (116,136) |
| Depreciation charge | - | (194,904) | (796,519) | (32,790) | (11,323) | (16,291) | (12,678) | (35,177) | (1,099,682) |
| Closing net book value | 561,815 | 1,858,532 | 8,282,440 | 295,699 | 109,928 | 139,102 | 38,661 | 189,828 | 11,476,005 |
| **At 30 June 2010** | | | | | | | | | |
| Cost | 561,815 | 3,679,141 | 14,863,196 | 657,455 | 195,829 | 267,486 | 123,688 | 332,598 | 20,681,208 |
| Accumulated depreciation | - | (1,820,609) | (6,580,756) | (361,756) | (85,901) | (128,384) | (85,027) | (142,770) | (9,205,203) |
| Net book value | 561,815 | 1,858,532 | 8,282,440 | 295,699 | 109,928 | 139,102 | 38,661 | 189,828 | 11,476,005 |
| **Annual rate of depreciation (%)** | - | 10 | 10 | 10 | 10 | 10 | 30 | 20 | |

### 11.1.1 Detail of operating assets, exceeding the book value of Rupees 50,000 disposed of during the year is as follows:

| Description | Qty | Cost | Accumulated depreciation | Net book value | Sale proceeds | Gain/ (Loss) | Mode of disposal | Particulars of purchasers |
|---|---|---|---|---|---|---|---|---|
| | | | (RUPEES IN THOUSAND) | | | | | |
| **Plant and Machinery** | | | | | | | | |
| Uster Optiscan | 1 | 11,925 | 8,285 | 3,640 | 150 | (3,490) | Negotiation | Pak Traders, Faisalabad. |
| Ring Frames China | 3 | 8,533 | 6,725 | 1,808 | 2,150 | 342 | Negotiation | Akram Cotton Mills Limited, Lahore. |
| Ring Frames China | 7 | 14,518 | 11,141 | 3,377 | 4,550 | 1,173 | Negotiation | Azgard Nine Limited, Lahore. |
| Murata Mach Coner | 1 | 3,256 | 1,976 | 1,280 | 2,000 | 720 | Negotiation | Habib Haseeb Spinning Mills (Private) Limited, Faisalabad. |
| Howa KZ Combers | 5 | 7,405 | 4,946 | 2,459 | 882 | (1,577) | Negotiation | Fahim Traders, Faisalabad. |
| Murata Mach Coner | 1 | 3,993 | 2,771 | 1,222 | 2,100 | 878 | Negotiation | Latif Textile Mills (Private) Limited, Karachi. |
| Autocone Winder | 1 | 9,258 | 7,743 | 1,515 | 2,940 | 1,425 | Negotiation | Khurshid Spinning Mills Limited, Faisalabad. |
| Ring Frames China | 6 | 12,444 | 9,713 | 2,731 | 6,468 | 3,737 | Negotiation | Wisal Kamal Fabric (Private) Limited,Sheikhupura. |
| Warping and Sizing | 2 | 27,555 | 22,750 | 4,805 | 4,054 | (751) | Negotiation | Mithela Textile Industries, Bangladesh. |
| Sulzer Looms | 16 | 68,704 | 56,048 | 12,656 | 18,720 | 6,064 | Negotiation | M.K. Sons (Private) Limited, Faisalabad. |
| Ring Frames China | 10 | 18,401 | 9,535 | 8,866 | 15,680 | 6,814 | Negotiation | Nadeem Textile Mills Limited, Karachi. |
| Sanforising Machine | 1 | 28,874 | 15,368 | 13,506 | 11,760 | (1,746) | Negotiation | Fair Deal Textile (Private) Limited, Karachi. |
| Caterpillar Generator 3516-B | 5 | 86,449 | 42,989 | 43,460 | 50,000 | 6,540 | Negotiation | Allied Engineer and Services Limited, Lahore. |
| | | 301,315 | 199,990 | 101,325 | 121,454 | 20,129 | | |
| **Factory Equipment** | | | | | | | | |
| Old Used Parts | 2 | 1,641 | 1,287 | 354 | 373 | 19 | Negotiation | Tanveer Ali, Nishatabad Faisalabad. |
| **Electric Installations** | | | | | | | | |
| Transformer 1000 KVA | 1 | 870 | 558 | 312 | 400 | 88 | Negotiation | Ghulam Mustafa, Faisalabad. |
| H.T. Panel | 1 | 488 | 274 | 214 | 225 | 11 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Transformer 3500 KVA | 1 | 1,075 | 713 | 362 | 1,800 | 1,438 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Transformer 1000 KVA | 1 | 2,350 | 1,726 | 624 | 625 | 1 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Cables, Transformer and Pannels | 2 | 4,432 | 2,810 | 1,622 | 5,000 | 3,378 | Negotiation | Allied Rental Modaraba, Karachi. |
| | | 9,215 | 6,081 | 3,134 | 8,050 | 4,916 | | |
| **Vehicles** | | | | | | | | |
| Toyota Corolla Saloon LZU-7447 | 1 | 1,304 | 748 | 556 | 559 | 3 | Negotiation | Mr. Khalid Javaid, Faisalabad. |
| Suzuki Cultus LZU-7219 | 1 | 651 | 381 | 270 | 507 | 237 | Negotiation | Syed Muhammad Bilal Zia, Lahore. |
| Suzuki Alto LZQ-7613 | 1 | 517 | 340 | 177 | 457 | 280 | Negotiation | Mrs. Uzma Naseem, Lahore. |
| Toyota Corolla LEJ-07-6849 | 1 | 1,161 | 397 | 764 | 948 | 184 | Negotiation | Mian Muhammad Hanif, Lahore. |
| Honda City AJN-0733 | 1 | 845 | 495 | 350 | 380 | 30 | Negotiation | Sheikh Muhammad Mansha, Karachi. |
| Toyota Corolla LEJ-07-1751 | 1 | 1,000 | 104 | 896 | 1,000 | 104 | Negotiation | Mr. Arshad Ali, Hafizabad. |
| Suzuki Cultus LWA-6861 | 1 | 619 | 349 | 270 | 532 | 262 | Negotiation | Mr. Jalal Mirza, Lahore. |
| Mitsubishi Lancer 1.6 GLX LEA-8904 | 1 | 1,118 | 561 | 557 | 604 | 47 | Negotiation | Mrs. Iffat Mahmood, Lahore. |
| Honda City LW-4006 | 1 | 890 | 525 | 365 | 737 | 372 | Negotiation | Mr. Muhammad Azam, Khanewal. |
| Suzuki Cultus LW-8186 | 1 | 646 | 381 | 265 | 268 | 3 | Negotiation | Mr. Irfan Butt (Company's employee), Lahore. |
| Honda City LWH-3412 | 1 | 948 | 533 | 415 | 420 | 5 | Negotiation | Mr. Muhammad Mumtaz (Company's employee), Sargodha. |
| Honda City LWE-5216 | 1 | 940 | 536 | 404 | 410 | 6 | Negotiation | Ms. Bushra Malik, Lahore. |
| Toyota Corolla LW-9627 | 1 | 1,022 | 604 | 418 | 424 | 6 | Negotiation | Mr. Pervaiz-ul-Islam Mir (Company's employee), Lahore. |
| Honda City LXV-9992 | 1 | 815 | 682 | 133 | 450 | 317 | Negotiation | Mr. Muhammad Alyas, Lahore. |
| Suzuki Cultus LZS-5457 | 1 | 645 | 404 | 241 | 245 | 4 | Negotiation | Syed Asif Abbas (Company's employee), Lahore. |
| Suzuki Alto LEA-07-2939 | 1 | 514 | 217 | 297 | 482 | 185 | Negotiation | Mr. Babar Ali, Lahore. |
| Honda City LZT-6622 | 1 | 891 | 574 | 317 | 319 | 2 | Negotiation | Mr. Abdul Majid Qureshi (Company's employee), Lahore. |
| Honda City LZX-4522 | 1 | 891 | 509 | 382 | 752 | 370 | Negotiation | Mr. Muhammad Asif, Lahore. |
| Suzuki Cultus LZS-3372 | 1 | 645 | 409 | 236 | 480 | 244 | Negotiation | Mr. Muhammad Majid, Lahore. |
| Toyota Corolla LZZ-3297 | 1 | 943 | 529 | 414 | 435 | 21 | Negotiation | Mr. Saad Zulfiqar (Company's employee), Lahore. |
| Honda Civic LEB-06-1311 | 1 | 1,337 | 585 | 752 | 1,200 | 448 | Insurance Claim | Security General Insurance Company Ltd. |
| Honda City LWE-6568 | 1 | 940 | 534 | 406 | 410 | 4 | Negotiation | Mr. Tahir Hussain (Company's employee), Sargodha. |
| Suzuki Alto LZU-9222 | 1 | 518 | 302 | 216 | 218 | 2 | Negotiation | Mr. Tariq Iqbal Khan (Company's employee), Lahore. |
| Suzuki Alto FDZ-3825 | 1 | 505 | 399 | 106 | 107 | 1 | Negotiation | Mr. Tahir Yaseen (Company's employee), Faisalabad. |
| Honda City LXW-6486 | 1 | 891 | 515 | 376 | 380 | 4 | Negotiation | Mr. Ejaz Hassan (Company's employee), Lahore. |
| Suzuki Baleno LRX-2376 | 1 | 797 | 574 | 223 | 520 | 297 | Negotiation | Mr. Naeem Ahmad, Lahore. |
| Suzuki Cultus FDZ-3028 | 1 | 592 | 464 | 128 | 366 | 238 | Negotiation | Mr. Muhammad Zahid, Faisalabad. |
| Suzuki Cultus LZQ-7620 | 1 | 650 | 412 | 238 | 239 | 1 | Negotiation | Mr. Waheed Ashraf (Company's employee), Lahore. |
| Honda City LZY-3522 | 1 | 891 | 507 | 384 | 388 | 4 | Negotiation | Mr. Khalid Mehmood (Company's employee), Sahiwal. |
| | | 24,126 | 13,570 | 10,556 | 14,237 | 3,681 | | |
| **Computer equipment** | | | | | | | | |
| Dell Latitude Note Book | 1 | 132 | 82 | 50 | 43 | (7) | Insurance claim | Security General Insurance Company Ltd. |
| **Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000** | | 3,893 | 3,176 | 717 | 1,333 | 616 | | |
| | | 340,322 | 224,186 | 116,136 | 145,490 | 29,354 | | |

| | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **11.1.2** | **Depreciation charge for the year has been allocated as follows:** | | |
| | Cost of sales (Note 26) | **1,035,536** | 1,058,264 |
| | Distribution cost (Note 27) | **3,767** | 3,654 |
| | Administrative expenses (Note 28) | **60,218** | 55,013 |
| | Capital work in progress | **161** | - |
| | | **1,099,682** | 1,116,931 |
| **11.2** | **Capital work in progress** | | |
| | Buildings on freehold land | **106,742** | 30,756 |
| | Plant and machinery | **245,225** | 62,064 |
| | Electric installations | **546** | 54 |
| | Unallocated expenses (Note 11.3) | **7,219** | - |
| | Letters of credit against machinery | **2,631** | 402 |
| | Advances against furniture and office equipment | **652** | 1,738 |
| | Advances against vehicles | **2,647** | 2,266 |
| | | **365,662** | 97,280 |

**11.3** It includes borrowing cost capitalised of Rupees 4.835 million using the capitalisation rate of 11.65 % per annum.

## 12. INVESTMENT PROPERTIES

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | | Book Value |
| | As at 01 July 2009 | Transfer from operating assets | As at 30 June 2010 | As at 01 July 2009 | Transfer from operating assets | For the year | As at 30 June 2010 | As at 30 June 2010 |
| | (RUPEES IN THOUSAND) | | | | | | | |
| **Land** | **18,756** | **56,632** | **75,388** | **-** | **-** | **-** | **-** | **75,388** |
| **Buildings** | **46,090** | **46,048** | **92,138** | **23,797** | **4,827** | **6,352** | **34,976** | **57,162** |
| | **64,846** | **102,680** | **167,526** | **23,797** | **4,827** | **6,352** | **34,976** | **132,550** |

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | | Book Value |
| | As at 01 July 2008 | Transfer from operating assets | As at 30 June 2009 | As at 01 July 2008 | Transfer from operating assets | For the year | As at 30 June 2009 | As at 30 June 2009 |
| | (RUPEES IN THOUSAND) | | | | | | | |
| Land | - | 18,756 | 18,756 | - | - | - | - | 18,756 |
| Buildings | - | 46,090 | 46,090 | - | 21,209 | 2,588 | 23,797 | 22,293 |
| | - | 64,846 | 64,846 | - | 21,209 | 2,588 | 23,797 | 41,049 |

**12.1** Depreciation at the rate of 10 percent per annum on buildings amounting to Rupees 6.352 million (2009: Rupees 2.588 million) charged during the year is allocated to other operating expenses. No expenses directly related to investment properties were incurred during the year. The market value of land and buildings is estimated at Rupees 346.215 million (2009: Rupees 188.557 million). The valuation has been carried out by an independent valuer.

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **13. LONG TERM INVESTMENTS** | | |
| **Subsidiary Companies** | | |
| Nishat Power Limited - quoted (Note 13.1 and 13.2) 201,288,498 (2009: 160,187,500) fully paid ordinary shares of Rupees 10 each. Equity held 56.85% (2009: 65.24%) | **2,012,885** | 1,601,875 |
| Nishat USA Inc. - unquoted (Note 13.2) 200 (2009: 200) fully paid shares with no par value per share | **3,210** | 3,056 |
| **Available for sale** | | |
| **Associated companies (with significant influence)** | | |
| D.G. Khan Cement Company Limited - quoted (Note 13.3) 114,645,168 (2009: 95,537,640) fully paid ordinary shares of Rupees 10 each. Equity held 31.40% (2009: 31.40%) | **2,959,565** | 2,577,414 |
| MCB Bank Limited - quoted 52,591,266 (2009: 47,810,242) fully paid ordinary shares of Rupees 10 each. Equity held 6.92% (2009: 6.92%) | **7,955,322** | 7,955,322 |
| Nishat Paper Products Company Limited - unquoted (Note 13.4) 11,634,199 (2009:11,634,199) fully paid ordinary shares of Rupees 10 each. Equity held 25% (2009: 25%) | **116,342** | 116,342 |
| AES Lal Pir (Private) Limited - unquoted (Note 13.5 and 13.6) 110,498,540 (2009: Nil) fully paid ordinary shares of Rupees 10 each. Equity held 32% (2009: Nil) | **1,648,444** | - |
| AES Pak Gen (Private) Company - unquoted (Note 13.5 and 13.6) 119,066,110 (2009: Nil) fully paid ordinary shares of Rupees 10 each. Equity held 32% (2009: Nil) | **1,651,635** | - |

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **Associated company (other)** | | |
| Adamjee Insurance Company Limited - quoted (Note 13.7) 36,337 (2009: 33,034) fully paid ordinary shares of Rupees 10 each. Equity held 0.03% (2009: 0.03%) | **2,774** | 3,725 |
| **Other** | | |
| Habib Bank Limited - quoted 145 (2009: 132) fully paid ordinary shares of Rupees 10 each | **12** | 24 |
| | **16,350,189** | 12,257,758 |
| Less: Impairment loss recognised (Note 29) | **-** | (963) |
| Add / (Less): Fair value adjustment | **5,609,354** | (303,846) |
| | **21,959,543** | 11,952,949 |

**13.1** The Company has to maintain at least 51% holding in the share capital of Nishat Power Limited (NPL) during the period of first six years from the date of commercial operations of NPL. Moreover, the Company has pledged its 180,588,155 (2009: 148,537,500) shares to lenders of NPL for the purpose of securing finance.

**13.2** Based on value in use calculations as at 30 June 2010, there was no impairment loss on investments in subsidiaries and other investments in associates with significant influence (tested for impairment under IAS 36 'Impairment of Assets').

**13.3** Investment in D.G. Khan Cement Company Limited is classified as equity investment in associated company with significant influence. The management, in accordance with provisions of IAS 36, 'Impairment of Assets' has determined the recoverable amount of its investment i.e. higher of fair value less cost to sell and value in use. Based on favourable value in use, the management concludes that the carrying amount of investment in D.G. Khan Cement Company Limited does not exceed from its recoverable amount. Moreover, the Company has pledged 40 million shares of D.G. Khan Cement Company Limited as security against short term borrowings.

**13.4** Investment in Nishat Paper Products Company Limited is valued at Rupees 10 (2009: Rupees 8.64) per share. Fair value is calculated by an independent valuer on the basis of net assets value method applied on unaudited financial statements of the investee company for the year ended 30 June 2010.

**13.5** Fair value per share of Rupees 26.53 and Rupees 33.36 of AES Lal Pir (Private) Limited and AES Pak Gen (Private) Company respectively is calculated by an independent valuer on the basis of dividend stream method.

**13.6** Investments in AES Lal Pir (Private) Limited and AES Pak Gen (Private) Company include 500 shares each, held in the name of nominee director of the Company.

**13.7** Adamjee Insurance Company Limited is associated company due to common directorship.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **14. LONG TERM LOANS** | | |
| Considered good: | | |
| Executives - secured (Note 14.1) | **26,819** | 11,688 |
| Other employees - secured | **14,213** | 9,774 |
| Subsidiary company (Note 14.4) | **472,885** | - |
| | **513,917** | 21,462 |
| Less: Current portion shown under current assets (Note 19) | | |
| Executives | **8,522** | 5,339 |
| Other employees | **6,592** | 3,756 |
| | **15,114** | 9,095 |
| | **498,803** | 12,367 |

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

| | 2010 | 2009 |
|---|---|---|
| Opening balance as at 01 July | **11,688** | 8,391 |
| Add: Disbursements | **23,342** | 10,667 |
| | **35,030** | 19,058 |
| Less: Repayments | **8,211** | 7,370 |
| Closing balance as at 30 June | **26,819** | 11,688 |

**14.1.1** Maximum aggregate balance due from executives at the end of any month during the year was Rupees 27.259 million (2009: Rupees 11.688 million).

**14.2** These represent interest free house construction loans given to executives and employees and are secured against balance to the credit of employee in the provident fund trust. These are recoverable in equal monthly installments.

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

**14.4** This represents subordinated long term loan given to Nishat Power Limited - subsidiary company. This loan is unsecured and carries mark up at the rate of 3 months KIBOR plus 2% payable on quarterly basis. The principal amount will be repaid in bullet payment on 24 September 2014.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 15. LONG TERM DEPOSITS AND PREPAYMENTS

| | 2010 | 2009 |
|---|---|---|
| Security deposits | **14,323** | 11,631 |
| Margin against bank guarantees | **2,500** | - |
| Prepayments | **-** | 1,086 |
| | **16,823** | 12,717 |
| Less: Current portion shown under current assets | **-** | 869 |
| | **16,823** | 11,848 |

## 16. STORES, SPARE PARTS AND LOOSE TOOLS

| | 2010 | 2009 |
|---|---|---|
| Stores (Note 16.1) | **473,896** | 385,406 |
| Spare parts | **240,686** | 175,309 |
| Loose tools | **1,307** | 536 |
| | **715,889** | 561,251 |
| Less: Provision for slow moving items (Note 29) | **27,057** | - |
| | **688,832** | 561,251 |

**16.1** This includes stores in transit of Rupees 53.009 million (2009: Rupees 37.106 million).

## 17. STOCK IN TRADE

| | 2010 | 2009 |
|---|---|---|
| Raw materials | **1,595,668** | 1,398,655 |
| Work in process (Note 17.1) | **2,921,946** | 1,529,335 |
| Finished goods (Note 17.1 and 17.2) | **1,545,610** | 1,164,522 |
| | **6,063,224** | 4,092,512 |
| Less: Provision for slow moving stocks (Note 29) | **2,783** | - |
| | **6,060,441** | 4,092,512 |

**17.1** Finished goods and work in process of Rupees 214.263 million (2009: Rupees 125.657 million) are being carried at net realizable value.

**17.2** Finished goods include stock in transit of Rupees 188.010 million (2009: Rupees 118.559 million).

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 18. TRADE DEBTS

| | 2010 | 2009 |
|---|---|---|
| **Considered good:** | | |
| Secured (against letters of credit) | **871,217** | 393,871 |
| Unsecured | **1,170,039** | 906,495 |
| | **2,041,256** | 1,300,366 |
| **Considered doubtful:** | | |
| Others - unsecured | **119,460** | 107,460 |
| Less: Provision for doubtful debts | | |
| As at 01 July | **107,460** | 27,000 |
| Add: Provision for the year | **12,000** | 80,460 |
| As at 30 June | **119,460** | 107,460 |
| | **-** | - |

**18.1** As at 30 June 2010, trade debts of Rupees 271.291 million (2009 : Rupees 221.907 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

| | 2010 | 2009 |
|---|---|---|
| Upto 1 month | **202,322** | 111,446 |
| 1 to 6 months | **68,556** | 80,044 |
| More than 6 months | **413** | 30,417 |
| | **271,291** | 221,907 |

**18.2** As at 30 June 2010, trade debts of Rupees 119.460 million (2009 : Rupees 107.460 million) were impaired and provided for. The ageing of these trade debts was more than six months.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 19. LOANS AND ADVANCES

| | 2010 | 2009 |
|---|---|---|
| **Considered good:** | | |
| Employees - interest free: | | |
| – Executives | **1,579** | 492 |
| – Other employees | **4,188** | 3,228 |
| | **5,767** | 3,720 |
| Current portion of long term loans (Note 14) | **15,114** | 9,095 |
| Advances to suppliers | **80,948** | 70,808 |
| Letters of credit | **884** | 1,369 |
| Income tax | **374,206** | 307,275 |
| Other advances | **27,127** | 69,758 |
| | **504,046** | 462,025 |
| **Considered doubtful:** | | |
| Others | **108** | 108 |
| Less: Provision for doubtful debts | **108** | 108 |
| | **-** | - |
| | **504,046** | 462,025 |

## 20. SHORT TERM DEPOSITS AND PREPAYMENTS

| | 2010 | 2009 |
|---|---|---|
| Deposits | **25,973** | 24,908 |
| Prepayments - including current portion | **5,939** | 4,972 |
| | **31,912** | 29,880 |

## 21. OTHER RECEIVABLES

| | 2010 | 2009 |
|---|---|---|
| **Considered good:** | | |
| Export rebate and claims | **212,874** | 123,674 |
| Sales tax refundable | **343,907** | 179,801 |
| Fair value of forward exchange contracts | **101,809** | - |
| Markup rate support receivable from financial institutions | **34,764** | - |
| Miscellaneous receivables | **31,053** | 19,525 |
| | **724,407** | 323,000 |

## 22. ACCRUED INTEREST

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **23. SHORT TERM INVESTMENTS** | | |
| **Subsidiary Company** | | |
| Nishat Power Limited - quoted<br>Nil (2009: 29,812,498) fully paid ordinary shares of Rupees 10 each. Equity held 56.85% (2009: 65.24%) | **-** | 298,125 |
| **Available for sale** | | |
| **Associated company** | | |
| Security General Insurance Company Limited - unquoted (Note 23.1) 10,226,244 (2009: 10,226,244) fully paid ordinary shares of Rupees 10 each. Equity held 15.02 % (2009: 15.02%) | **11,188** | 11,188 |
| **SHORT TERM INVESTMENTS** | | |
| **Available for sale** | | |
| **Others** | | |
| Nishat (Chunian) Limited - quoted (Note 23.2)<br>22,513,321 (2009: 11,256,661) fully paid ordinary shares of Rupees 10 each. Equity held 14.20% (2009: 13.61 %) | **242,750** | 109,931 |
| Nil (2009: 5,628,330) fully paid non voting convertible cumulative preferred shares of Rupees 10 each. Extent of investment held 13.61 % (Note 23.2) | **-** | 56,283 |
| Pakistan Strategic Allocation Fund - quoted<br>500,000 (2009: 500,000) fully paid certificates of Rupees 10 each | **1,715** | 5,000 |
| | **255,653** | 480,527 |
| Less: Impairment loss recognised (Note 29) | **-** | (16,296) |
| Add: Fair value adjustment | **1,298,890** | 950,079 |
| | **1,554,543** | 1,414,310 |

**23.1** Fair value per share of Rupees 116.94 (2009: Rupees 94) is calculated by independent valuer on the basis of dividend stream method. Security General Insurance Company Limited is associated company due to common directorship.

**23.2** During the year, the Company has opted for conversion of 5,628,330 fully paid non-voting convertible cumulative preferred shares of Rupees 10 each into equivalent number of fully paid ordinary shares of Rupees 10 each of Nishat (Chunian) Limited.

## 24. CASH AND BANK BALANCES

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **With banks:** | | |
| On PLS saving accounts | | |
| Including US$ 86,962 (2009: US$ 114,876) | **7,444** | 9,359 |
| On current accounts (Note 24.1) | | |
| Including US$ 220,929 (2009: US$ 159,536) | **93,994** | 96,121 |
| | **101,438** | 105,480 |
| Cash in hand | **9,147** | 6,014 |
| | **110,585** | 111,494 |

**24.1** Cash at banks includes balance of Rupees 13.626 million (2009: Rupees 50.122 million) with MCB Bank Limited - associated company.

**24.2** Rate of profit on bank deposits ranges from 4.50% to 12.00% (2009: 0.24% to 10.0%) per annum.

## 25. SALES

| | 2010 | 2009 |
|---|---|---|
| Export (Note 25.3) | **23,928,427** | 18,634,158 |
| Local (Note 25.1) | **7,312,240** | 5,156,436 |
| Duty draw back | **189,865** | - |
| Export rebate | **105,115** | 79,785 |
| | **31,535,647** | 23,870,379 |

### 25.1 Local sales

| | 2010 | 2009 |
|---|---|---|
| Sales (Note 25.2) | **7,285,913** | 5,143,840 |
| Less: Sales tax | **39,202** | 41,656 |
| | **7,246,711** | 5,102,184 |
| Processing income | **64,340** | 51,496 |
| Doubling income | **1,189** | 2,756 |
| | **7,312,240** | 5,156,436 |

**25.2** This includes sale of Rupees 1,323.913 million (2009: Rupees 456.841 million) made to direct exporters against special purchase order (SPO). Further, local sales includes waste sale of Rupees 668.292 million (2009: Rupees 652.248 million).

**25.3** Exchange gain due to currency rate fluctuations relating to export sales amounting to Rupees 130.182 million (2009: Rupees 167.095 million) has been included in export sales.

## 26. COST OF SALES

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Raw material consumed (Note 26.1) | **7,208,294** | 5,919,709 |
| Cloth and yarn purchased / used | **10,786,734** | 5,820,051 |
| Processing charges | **125,041** | 79,104 |
| Salaries, wages and other benefits (Note 26.2) | **1,927,950** | 1,730,455 |
| Stores, spare parts and loose tools consumed | **2,839,582** | 2,184,346 |
| Packing materials consumed | **548,786** | 451,611 |
| Repair and maintenance | **296,972** | 166,351 |
| Fuel and power | **2,324,652** | 2,149,417 |
| Insurance | **27,246** | 27,632 |
| Other factory overheads | **208,368** | 263,387 |
| Depreciation (Note 11.1.2) | **1,035,536** | 1,058,264 |
| | **27,329,161** | 19,850,327 |
| Work-in-process | | |
| Opening stock | **1,529,335** | 1,207,658 |
| Closing stock | **(2,921,946)** | (1,529,335) |
| | **(1,392,611)** | (321,677) |
| Cost of goods manufactured | **25,936,550** | 19,528,650 |
| Finished goods | | |
| Opening stock | **1,164,522** | 1,154,710 |
| Closing stock | **(1,545,610)** | (1,164,522) |
| | **(381,088)** | (9,812) |
| Cost of sales | **25,555,462** | 19,518,838 |

### 26.1 Raw material consumed

| | 2010 | 2009 |
|---|---|---|
| Opening stock | **1,398,655** | 1,800,826 |
| Add: Purchased during the year | **7,405,307** | 5,517,538 |
| | **8,803,962** | 7,318,364 |
| Less: Closing stock | **1,595,668** | 1,398,655 |
| | **7,208,294** | 5,919,709 |

**26.2** Salaries, wages and other benefits include provident fund contribution of Rupees 52.143 million (2009: Rupees 47.918 million) by the Company.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 27. DISTRIBUTION COST

| | 2010 | 2009 |
|---|---|---|
| Salaries and other benefits (Note 27.1) | **120,369** | 90,099 |
| Outward freight and handling | **901,927** | 730,797 |
| Commission to selling agents | **476,818** | 346,630 |
| Rent, rates and taxes | **12,218** | 4,321 |
| Insurance | **10,713** | 8,168 |
| Travelling and conveyance | **62,950** | 45,007 |
| Vehicles' running | **7,001** | 5,883 |
| Entertainment | **2,180** | 2,457 |
| Advertisement | **45,366** | 17,077 |
| Postage, telephone and telegram | **57,107** | 52,677 |
| Electricity and gas | **3,083** | 3,457 |
| Printing and stationery | **1,711** | 2,308 |
| Repair and maintenance | **9,280** | 3,077 |
| Fee and subscription | **108** | 18 |
| Depreciation (Note 11.1.2) | **3,767** | 3,654 |
| | **1,714,598** | 1,315,630 |

**27.1** Salaries and other benefits include provident fund contribution of Rupees 5.616 million (2009: Rupees 4.548 million) by the Company.

## 28. ADMINISTRATIVE EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Salaries and other benefits (Note 28.1) | **343,325** | 261,412 |
| Rent, rates and taxes | **5,169** | 7,428 |
| Legal and professional | **9,602** | 7,861 |
| Insurance | **4,190** | 4,412 |
| Travelling and conveyance | **20,588** | 19,375 |
| Vehicles' running | **23,958** | 20,620 |
| Entertainment | **10,671** | 7,333 |
| Auditors' remuneration (Note 28.2) | **2,275** | 2,056 |
| Advertisement | **293** | 28 |
| Postage, telephone and telegram | **5,704** | 5,544 |
| Electricity and gas | **14,519** | 8,074 |
| Printing and stationery | **11,191** | 13,135 |
| Repair and maintenance | **11,976** | 9,166 |
| Fee and subscription | **6,358** | 5,250 |
| Depreciation (Note 11.1.2) | **60,218** | 55,013 |
| Miscellaneous | **15,129** | 8,305 |
| | **545,166** | 435,012 |

**28.1** Salaries and other benefits include provident fund contribution of Rupees 13.427 million (2009: Rupees 10.077 million) by the Company.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **28.2 Auditors' remuneration** | | |
| **Riaz Ahmad and Company** | | |
| Audit fee | **1,822** | 1,656 |
| Half yearly review | **381** | 347 |
| Reimbursable expenses | **72** | 53 |
| | **2,275** | 2,056 |

## 29. OTHER OPERATING EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Workers' profit participation fund (Note 7.2) | **173,101** | 82,641 |
| Workers' welfare fund | **67,063** | 5,886 |
| Provision for doubtful debts (Note 18) | **12,000** | 80,460 |
| Impairment loss on equity investments | **-** | 17,259 |
| Depreciation on investment properties | **6,352** | 2,588 |
| Provision for slow moving stores, spare parts and loos tools | **27,057** | - |
| Provision for slow moving stock in trade | **2,783** | - |
| Donations (Note 29.1) | **724** | 2,774 |
| | **289,080** | 191,608 |

**29.1** There is no interest of any director or his spouse in donees' fund.

## 30. OTHER OPERATING INCOME

| | 2010 | 2009 |
|---|---|---|
| **Income from financial assets** | | |
| Dividend income (Note 30.1) | **558,417** | 511,333 |
| Profit on deposits with banks | **18,059** | 1,127 |
| Net exchange gain including loss on forward contracts | **166,534** | - |
| Gain on sale of investment | **65,263** | - |
| Interest income on loan to subsidiary company | **39,237** | - |
| | **847,510** | 512,460 |
| **Income from non financial assets** | | |
| Gain on sale of property, plant and equipment | **29,354** | 2,067 |
| Scrap sales | **76,203** | 64,911 |
| Rental income from investment properties | **28,428** | 19,451 |
| Other | **155** | 117 |
| | **134,140** | 86,546 |
| | **981,650** | 599,006 |

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **30.1 Dividend income** | | |
| **From related parties / associated companies** | | |
| MCB Bank Limited | **537,865** | 483,561 |
| Nishat (Chunian) Limited - Preferred shares | **-** | 1,781 |
| Adamjee Insurance Company Limited | **99** | 75 |
| Security General Insurance Company Limited | **20,452** | 25,566 |
| | **558,416** | 510,983 |
| **Others** | | |
| Pakistan Strategic Allocation Fund | **-** | 350 |
| Habib Bank Limited | **1** | - |
| | **558,417** | 511,333 |

## 31. FINANCE COST

| | | |
|---|---|---|
| Mark-up on: | | |
| Long term financing | **320,835** | 253,319 |
| Short term borrowings | **636,564** | 986,878 |
| Interest on workers' profit participation fund (Note 7.2) | **1,053** | 2,787 |
| Bank charges and commission | **168,470** | 203,812 |
| | **1,126,922** | 1,446,796 |

## 32. PROVISION FOR TAXATION

| | | |
|---|---|---|
| Current (Note 32.1) | **400,608** | 293,500 |
| Prior year adjustment | **(30,000)** | - |
| | **370,608** | 293,500 |

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

**32.2** Provision for deferred tax is not required as the Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001 and no temporary differences are expected to arise in the foreseeable future except for deferred tax liability as explained in note 6.

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

| | | 2010 | 2009 |
|---|---|---|---|
| **33. EARNINGS PER SHARE - BASIC AND DILUTED** | | | |
| There is no dilutive effect on the basic earnings per share which is based on: | | | |
| Profit attributable to ordinary shares | (Rupees in thousand) | **2,915,461** | 1,268,001 |
| Weighted average number of ordinary shares | (Numbers) | **277,557,804** | 203,406,045 |
| Earnings per share | (Rupees) | **10.50** | 6.23 |

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **34. CASH GENERATED FROM OPERATIONS** | | |
| Profit before taxation | **3,286,069** | 1,561,501 |
| **Adjustments for non-cash charges and other items:** | | |
| Depreciation | **1,105,873** | 1,119,519 |
| Provision for doubtful debts | **12,000** | 80,460 |
| Provision for slow moving stores, spare parts and loose tools | **27,057** | - |
| Provision for slow moving stock in trade | **2,783** | - |
| Gain on sale of property, plant and equipment | **(29,354)** | (2,067) |
| Gain on sale of investment | **(65,263)** | - |
| Exchange difference on translation of investment in foreign subsidiary | **(155)** | (117) |
| Dividend income | **(558,417)** | (511,333) |
| Impairment loss on investments | **-** | 17,259 |
| Net exchange gain including loss on forward contracts | **(166,534)** | - |
| Interest income on loan to subsidiary company | **(39,237)** | - |
| Finance cost | **1,126,922** | 1,446,796 |
| Working capital changes (Note 34.1) | **(2,315,175)** | 154,306 |
| | **2,386,569** | 3,866,324 |

**34.1 Working capital changes**

| | 2010 | 2009 |
|---|---|---|
| (Increase) / decrease in current assets: | | |
| - Stores, spare parts and loose tools | **(154,638)** | (48,137) |
| - Stock in trade | **(1,970,712)** | 70,682 |
| - Trade debts | **(752,890)** | 6,320 |
| - Loans and advances | **30,929** | (46,436) |
| - Short term deposits and prepayments | **(2,901)** | 3,553 |
| - Other receivables | **(301,379)** | 55,987 |
| | **(3,151,591)** | 41,969 |
| Increase in trade and other payables | **836,416** | 112,337 |
| | **(2,315,175)** | 154,306 |

## 35. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company has proposed a cash dividend for the year ended 30 June 2010 of Rupees 2.5 per share (2009: Rupees 2 per share) at their meeting held on September 9, 2010. The Board of Directors also proposed to transfer Rupees 2,036 million (2009: Rupees 948 million) from un-appropriated profit to general reserve. However, these events have been considered as non-adjusting events under IAS 10 'Events after the Reporting Period' and have not been recognized in these financial statements.

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

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

| | Chief Executive Officer | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | (RUPEES IN THOUSAND) | | | | | |
| **Managerial remuneration** | **7,557** | 6,297 | **1,997** | 2,043 | **73,710** | 53,195 |
| **Allowances** | | | | | | |
| Cost of living allowance | **-** | - | **6** | 7 | **323** | 248 |
| House rent | **3,023** | 2,519 | **764** | 775 | **24,130** | 17,092 |
| Conveyance | **-** | - | **-** | - | **126** | 84 |
| Medical | **-** | - | **199** | 205 | **5,771** | 3,627 |
| Utilities | **756** | 630 | **200** | 186 | **6,011** | 4,572 |
| Special allowance | **-** | - | **-** | 2 | **159** | 91 |
| **Contribution to provident fund** | **-** | - | **190** | 162 | **6,632** | 4,177 |
| **Leave encashment** | **-** | - | **-** | - | **1,646** | 1,559 |
| | **11,336** | 9,446 | **3,356** | 3,380 | **118,508** | 84,645 |
| **Number of persons** | **1** | 1 | **2** | 3 | **94** | 65 |

**36.1** Chief executive, three directors and certain executives of the Company are provided with free maintained vehicles and certain executives are also provided with free housing facility alongwith utilities.

**36.2** Aggregate amount charged in the financial statements for fee to one director was Rupees 40,000 (2009: Rupees Nil).

## 37. TRANSACTIONS WITH RELATED PARTIES

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

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **Subsidiary companies** | | |
| Sale of vehicles | **34** | - |
| Share deposit money | **510,885** | 1,277,400 |
| Investment made | **510,885** | 1,290,000 |
| Purchase of goods and services | **17,016** | 13,599 |
| **Associated companies** | | |
| Investment made | **3,682,230** | - |
| Purchase of goods and services | **29,330** | 11,460 |
| Sale of goods and services | **8,411** | 31 |
| Sale of vehicles | **1,200** | 800 |
| Purchase of vehicles | **-** | 2,129 |
| Dividend income | **558,417** | 509,202 |
| Dividend paid | **43,515** | 52,564 |
| Insurance premium paid | **65,002** | 52,571 |
| Insurance claim received | **21,370** | 16,089 |
| Profit on saving accounts | **1,399** | 77 |
| Subscription paid | **713** | 375 |
| **Other related parties** | | |
| Investment made | **56,283** | - |
| Preference shares converted into ordinary shares | **89,547** | - |
| Purchase of goods and services | **172,487** | 127,669 |
| Sale of goods and services | **182,313** | 107,233 |
| Sale of property, plant and equipment | **-** | 300 |
| Company's contribution to provident fund trust | **71,222** | 62,543 |

## 38. SEGMENT INFORMATION

| | Spinning | | Weaving | | Processing and Home Textile | | Garments | | Power Generation | | Elimination of Inter-segment transactions | | Total - Company | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | (Rupees in thousand) | | | | | | | | | | | | | |
| Sales | **11,745,361** | 9,126,615 | **10,984,102** | 8,869,130 | **13,581,592** | 10,850,921 | **2,601,780** | 1,258,341 | **2,326,512** | 2,068,762 | **(9,703,700)** | (8,303,390) | **31,535,647** | 23,870,379 |
| Cost of sales | **(9,658,635)** | (8,243,297) | **(9,655,086)** | (7,391,660) | **(11,389,172)** | (8,859,803) | **(2,106,298)** | (1,144,588) | **(2,449,971)** | (2,182,880) | **9,703,700** | 8,303,390 | **(25,555,462)** | (19,518,838) |
| Gross profit / (loss) | **2,086,726** | 883,318 | **1,329,016** | 1,477,470 | **2,192,420** | 1,991,118 | **495,482** | 113,753 | **(123,459)** | (114,118) | **-** | - | **5,980,185** | 4,351,541 |
| Distribution cost | **(251,423)** | (183,629) | **(408,334)** | (322,856) | **(933,389)** | (760,230) | **(121,452)** | (48,915) | **-** | - | **-** | - | **(1,714,598)** | (1,315,630) |
| Administrative expenses | **(154,638)** | (128,167) | **(136,319)** | (95,247) | **(195,129)** | (159,509) | **(43,074)** | (40,392) | **(16,006)** | (11,697) | **-** | - | **(545,166)** | (435,012) |
| | **(406,061)** | (311,796) | **(544,653)** | (418,103) | **(1,128,518)** | (919,739) | **(164,526)** | (89,307) | **(16,006)** | (11,697) | **-** | - | **(2,259,764)** | (1,750,642) |
| Profit / (loss) before taxation and unallocated income and expenses | **1,680,665** | 571,522 | **784,363** | 1,059,367 | **1,063,902** | 1,071,379 | **330,956** | 24,446 | **(139,465)** | (125,815) | **-** | - | **3,720,421** | 2,600,899 |
| Unallocated income and expenses | | | | | | | | | | | | | | |
| Other operating expenses | | | | | | | | | | | | | **(289,080)** | (191,608) |
| Other operating income | | | | | | | | | | | | | **981,650** | 599,006 |
| Finance cost | | | | | | | | | | | | | **(1,126,922)** | (1,446,796) |
| Provision for taxation | | | | | | | | | | | | | **(370,608)** | (293,500) |
| Profit after taxation | | | | | | | | | | | | | **2,915,461** | 1,268,001 |

### 38.1 Reconciliation of reportable segment assets and liabilities

| | Spinning | | Weaving | | Processing and Home Textile | | Garments | | Power Generation | | Total - Company | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | (Rupees in thousand) | | | | | | | | | | | |
| **Total assets for reportable segments** | **6,184,668** | 5,215,320 | **3,635,533** | 3,026,856 | **7,359,656** | 5,981,663 | **1,763,519** | 1,321,718 | **1,849,672** | 1,772,030 | **20,793,048** | 17,317,587 |
| **Unallocated assets:** | | | | | | | | | | | | |
| Long term investments | | | | | | | | | | | **21,959,543** | 11,952,949 |
| Other receivables | | | | | | | | | | | **724,407** | 323,000 |
| Cash and bank balances | | | | | | | | | | | **110,585** | 111,494 |
| Other corporate assets | | | | | | | | | | | **2,594,731** | 1,807,656 |
| Total assets as per balance sheet | | | | | | | | | | | **46,182,314** | 31,512,686 |
| **Total liabilities for reportable segments** | **494,758** | 196,262 | **289,050** | 157,903 | **730,752** | 370,765 | **263,311** | 132,554 | **781,401** | 193,633 | **2,559,272** | 1,051,117 |
| **Unallocated liabilities:** | | | | | | | | | | | | |
| Deferred tax | | | | | | | | | | | **1,256,892** | 245,243 |
| Provision for taxation | | | | | | | | | | | **418,768** | 313,917 |
| Other corporate liabilities | | | | | | | | | | | **10,571,069** | 10,571,642 |
| Total liabilities as per balance sheet | | | | | | | | | | | **14,806,001** | 12,181,919 |

**38.2 Geographical information**

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Europe | **8,759,128** | 7,051,422 |
| Asia, Africa and Australia | **11,803,566** | 9,723,826 |
| United States of America and Canada | **3,660,713** | 1,938,695 |
| Pakistan | **7,312,240** | 5,156,436 |
| | **31,535,647** | 23,870,379 |

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

**38.4 Revenue from major customers**

The Company's revenue is earned from a large mix of customers.

## 39. PLANT CAPACITY AND ACTUAL PRODUCTION

| | | (FIGURES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **Spinning** | | | |
| 100 % plant capacity converted to 20s count based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Kgs.) | **64,713** | 62,944 |
| Actual production converted to 20s count based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Kgs.) | **57,222** | 57,088 |
| **Weaving** | | | |
| 100 % plant capacity at 50 picks based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Sq.Mt.) | **307,971** | 218,015 |
| Actual production converted to 50 picks based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Sq.Mt.) | **280,160** | 203,034 |
| **Dyeing and Finishing** | | | |
| Production capacity for 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Mt.) | **48,000** | 48,000 |
| Actual production on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Mt.) | **47,818** | 45,256 |
| **Power Plant** | | | |
| Generation capacity | (MWH) | **503** | 495 |
| Actual generation | (MWH) | **346** | 342 |

**Processing, Stitching and Apparel**

The plant capacity of these divisions are indeterminable due to multi product plants involving varying processes of manufacturing and run length of order lots.

### 39.1 REASON FOR LOW PRODUCTION

Under utilization of available capacity is mainly due to normal maintenance.

## 40. FINANCIAL RISK MANAGEMENT

### 40.1 Financial risk factors

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

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

**(a) Market risk**

**(i) Currency risk**

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

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

| | **2010** | 2009 |
|---|---|---|
| Cash at banks - USD | **307,891** | 274,412 |
| Trade debts - USD | **16,629,464** | 10,091,716 |
| Trade debts - Euro | **1,883,128** | 1,549,868 |
| Trade and other payable - USD | **2,308,900** | 1,347,861 |
| Trade and other payable - Euro | **178,640** | - |
| Net exposure - USD | **14,628,455** | 9,018,267 |
| Net exposure - Euro | **1,704,488** | 1,549,868 |

The following significant exchange rates were applied during the year:

| | 2010 | 2009 |
|---|---|---|
| **Rupees per US Dollar** | | |
| Average rate | **84.27** | 79.09 |
| Reporting date rate | **85.60** | 81.47 |
| | | |
| **Rupees per Euro** | | |
| Average rate | **116.35** | 108.05 |
| Reporting date rate | **104.50** | 115.24 |

**Sensitivity analysis**

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD and Euro with all other variables held constant, the impact on profit after taxation for the year would have been Rupees 57.601 million and Rupees 8.193 million (2009: Rupees 33.797 million and Rupees 8.216 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

**(ii) Other price risk**

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

**Sensitivity analysis**

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the Company's profit after taxation for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

| **Index** | **Impact on profit after taxation** | | **Impact on statement of other comprehensive income** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **.................... (Rupees in thousand) ....................** | | | |
| KSE 100 (5% increase) | **-** | - | **18,081** | 7,885 |
| KSE 100 (5% decrease) | **(17)** | 7,333 | **18,064** | - |

Equity (fair value reserve) would increase / decrease as a result of gains / losses on equity investments classified as available for sale.

**(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 and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

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

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **Fixed rate instruments** | | |
| **Financial liabilities** | | |
| Long term financing | **1,935,166** | 1,692,724 |
| **Floating rate instruments** | | |
| **Financial assets** | | |
| Bank balances- saving accounts | **7,444** | 9,359 |
| Loan to subsidiary | **472,885** | - |
| **Financial liabilities** | | |
| Long term financing | **2,174,160** | 1,075,000 |
| Short term borrowings | **6,649,447** | 7,342,600 |

**Fair value sensitivity analysis for fixed rate instruments**

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

**Cash flow sensitivity analysis for variable rate instruments**

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 77.592 million (2009: Rupees 78.284 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

**(b) Credit risk**

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Investments | **1,557,459** | 1,118,971 |
| Loans and advances | **546,811** | 94,940 |
| Deposits | **42,796** | 36,539 |
| Trade debts | **2,041,256** | 1,300,366 |
| Other receivables | **132,862** | 19,525 |
| Accrued interest | **16,906** | - |
| Bank balances | **101,438** | 105,480 |
| | **4,439,528** | 2,675,821 |

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

| | Rating | | | **2010** | 2009 |
|---|---|---|---|---|---|
| | **Short Term** | **Long Term** | **Agency** | **(Rupees in thousand)** | |
| **Banks** | | | | | |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | **1,354** | 1,842 |
| Allied Bank Limited | A1+ | AA | PACRA | **3,606** | 6,511 |
| Askari Bank Limited | A1+ | AA | PACRA | **794** | 211 |
| Bank Alfalah Limited | A1+ | AA | PACRA | **9,317** | 2,825 |
| Faysal Bank Limited | A-1+ | AA | JCR-VIS | **7,208** | 618 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | **6,691** | 14 |
| Habib Metropolitan Bank Limited | A1+ | AA+ | PACRA | **199** | 38 |
| JS Bank Limited | A1 | A | PACRA | **10** | 9,168 |
| KASB Bank Limited | A2 | A - | PACRA | **160** | 77 |
| MCB Bank Limited | A1+ | AA+ | PACRA | **13,626** | 50,122 |
| NIB Bank Limited | A1+ | AA - | PACRA | **214** | 204 |
| The Royal Bank of Scotland Limited | A1+ | AA | PACRA | **38** | 140 |
| Samba Bank Limited | A-1 | A | JCR-VIS | **128** | 5 |
| Silkbank Limited | A-3 | A - | JCR-VIS | **15,752** | 47 |
| Standard Chartered Bank (Pakistan) Limited | A1+ | AAA | PACRA | **2,078** | 12,589 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | **115** | 110 |
| Al-Baraka Islamic Bank | A-1 | A | JCR-VIS | **401** | 225 |
| Citibank N.A. | P-1 | A1 | Moody's | **33,107** | 12,618 |
| Deutsche Bank AG | P-1 | Aa3 | Moody's | **337** | 5 |
| HSBC Bank Middle East Limited | F1+ | AA - | Fitch | **107** | 4,214 |
| Bank Islami Pakistan Limited | A1 | A | PACRA | **45** | 2,605 |
| Meezan Bank Limited | A-1 | AA - | JCR-VIS | **6,151** | 1,292 |
| | | | | **101,438** | 105,480 |
| **Investments** | | | | | |
| Adamjee Insurance Company Limited | AA | | PACRA | **2,903** | 2,775 |
| Security General Insurance Company Limited | A | | JCR-VIS | **1,195,857** | 961,267 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | **14** | 11 |
| Pakistan Strategic Allocation Fund | 4 Star | | PACRA | **3,425** | 1,715 |
| | | | | **1,202,199** | 965,768 |
| | | | | **1,303,637** | 1,071,248 |

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

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

## (c) Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Company had Rupees 12,920 million available borrowing limits from financial institutions and Rupees 110.585 million cash and bank balances. Management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2010

| | Carrying amount | Contractual cash flows | 6 month or less | 6-12 month | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ---------------------------- | | (Rupees in thousand) | | ---------------------------- | |
| **Non-derivative financial liabilities:** | | | | | | |
| Long term financing | **4,109,326** | **5,047,657** | **763,468** | **761,435** | **1,398,919** | **2,123,835** |
| Trade and other payables | **1,780,301** | **1,780,301** | **1,780,301** | **-** | **-** | **-** |
| Short term borrowings | **6,649,447** | **6,970,342** | **6,612,076** | **358,266** | **-** | **-** |
| Accrued mark-up | **232,247** | **232,247** | **232,247** | **-** | **-** | **-** |
| | **12,771,321** | **14,030,547** | **9,388,092** | **1,119,701** | **1,398,919** | **2,123,835** |

Contractual maturities of financial liabilities as at 30 June 2009

| | Carrying amount | Contractual cash flows | 6 month or less | 6-12 month | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ---------------------------- | | (Rupees in thousand) | | ---------------------------- | |
| **Non-derivative financial liabilities:** | | | | | | |
| Long term financing | 2,767,724 | 3,371,840 | 152,147 | 545,805 | 1,157,417 | 1,516,471 |
| Trade and other payables | 1,126,920 | 1,126,920 | 1,126,920 | - | - | - |
| Short term borrowings | 7,342,600 | 7,778,131 | 6,951,624 | 826,507 | - | - |
| Accrued mark-up | 202,777 | 202,777 | 202,777 | - | - | - |
| | 11,440,021 | 12,479,668 | 8,433,468 | 1,372,312 | 1,157,417 | 1,516,471 |

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 and note 9 to these financial statements.

## 40.2 Fair values of financial assets and liabilities

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | -----------------(Rupees in thousand)--------------- | | | |
| **As at 30 June 2010** | | | | |
| **Assets** | | | | |
| Available for sale financial assets | 361,602 | - | 1,195,857 | 1,557,459 |
| **As at 30 June 2009** | | | | |
| **Assets** | | | | |
| Available for sale financial assets | 157,704 | - | 961,267 | 1,118,971 |

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

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

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

## 40.3 Financial instruments by categories

| | Loans and receivables | Available for sale | Total |
|---|---|---|---|
| | (Rupees in thousand) | | |
| **As at 30 June 2010** | | | |
| **Assets as per balance sheet** | | | |
| Investments | - | 1,557,459 | 1,557,459 |
| Loans and advances | 546,811 | - | 546,811 |
| Deposits | 42,796 | - | 42,796 |
| Trade debts | 2,041,256 | - | 2,041,256 |
| Other receivables | 132,862 | - | 132,862 |
| Accrued interest | 16,906 | - | 16,906 |
| Cash and bank balances | 110,585 | - | 110,585 |
| | 2,891,216 | 1,557,459 | 4,448,675 |

| | Financial liabilities at amortized cost |
|---|---|
| | (Rupees in thousand) |
| **Liabilities as per balance sheet** | |
| Long term financing | 4,109,326 |
| Accrued mark-up | 232,247 |
| Short term borrowings | 6,649,447 |
| Trade and other payables | 1,780,301 |
| | 12,771,321 |

| | Loans and receivables | Available for sale | Total |
|---|---|---|---|
| | (Rupees in thousand) | | |
| **As at 30 June 2009** | | | |
| **Assets as per balance sheet** | | | |
| Investments | - | 1,118,971 | 1,118,971 |
| Loans and advances | 94,940 | - | 94,940 |
| Deposits | 36,539 | - | 36,539 |
| Trade debts | 1,300,366 | - | 1,300,366 |
| Other receivables | 19,525 | - | 19,525 |
| Cash and bank balances | 111,494 | - | 111,494 |
| | 1,562,864 | 1,118,971 | 2,681,835 |

| | Financial liabilities at amortized cost |
|---|---|
| | (Rupees in thousand) |
| **Liabilities as per balance sheet** | |
| Long term financing | 2,767,724 |
| Accrued mark-up | 202,777 |
| Short term borrowings | 7,342,600 |
| Trade and other payables | 1,126,920 |
| | 11,440,021 |

### 40.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term financing and short term borrowings obtained by the Company as referred to in note 5 and 9 respectively. Total capital employed includes 'total equity' as shown in the balance sheet plus 'borrowings'. The Company's Strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity.

| | | **2010** | 2009 |
|---|---|---|---|
| Borrowings | Rupees in thousand | **10,758,773** | 10,110,324 |
| Total equity | Rupees in thousand | **31,376,313** | 19,330,767 |
| Total capital employed | Rupees in thousand | **42,135,086** | 29,441,091 |
| Gearing ratio | Percentage | **25.53** | 34.34 |

The decrease in the gearing ratio resulted primarily from increase in fair value reserves due to increase in market value of shares.

## 41. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 9, 2010 by the Board of Directors of the Company.

## 42. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made.

## 43. GENERAL

Figures have been rounded off to the nearest thousand of Rupees unless otherwise stated.

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# CONSOLIDATED FINANCIAL STATEMENTS

Directors are pleased to present their report together with the audited results of Nishat Group for the year ended 30 June, 2010. The Group results comprise financial statements of Nishat Mills Limited, Nishat USA Incorporation and Nishat Power Limited. The Company has annexed its consolidated financial statements along with its separate financial statements, in accordance with the requirements of International Accounting Standards-27 (Consolidated and Separate Financial Statements). The Directors report, giving a commentary on the performance of Nishat Mills Limited for the year ended 30 June, 2010 has been presented separately.

**Nishat USA Incorporation**

Nishat USA, Inc. a wholly owned subsidiary of Nishat Mills Limited, is a corporation service company incorporated on 22nd May, 2006 under the Business Corporation Law of The State of New York. The registered office of the corporation is situated at 676 Broadway, New York, NY 10012, U.S.A. Nishat Mills Limited acquired 200 fully paid shares, with no par value per share, of capital stock of Nishat USA, Inc. on 1st October, 2008. Nishat USA Inc. is a liaison office of Nishat Mills Limited marketing department and is providing marketing services in USA to Nishat Mills Limited.

Auditors have emphasized in their report to members that consolidated financial statements includes un-audited figures pertaining to the Subsidiary Company. As the business corporation laws of USA do not require the audit of accounts of the incorporation, the management used un-audited financial statements of Nishat USA Incorporation to prepare the consolidated financial statements.

**Nishat Power Limited**

Nishat Power Limited, incorporated under the Companies Ordinance, 1984 on 23 Feb, 2007, is the subsidiary company of Nishat Mills Limited and is a public listed company. During the year, Nishat Mills Limited divested a percentage off its holding in Nishat Power Limited through offer for sale of 22,500,000 ordinary shares of its subsidiary on the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. Nishat Mills Limited owns and controls 56.85% shares of the Nishat Power Limited.

The principle business of the Subsidiary is to build, own, operate and maintain a fuel power station having gross capacity of 200 MW installed in Jamber Kalan, Tehsil Pattoki, District Kasur, Punjab, Pakistan. It will generate, distribute, sale and supply electricity to National Transmission and Dispatch Company Limited under a 25 year power purchase agreement with WAPDA. The subsidiary has got Generation License from NEPRA and Letter of Support and Implementation Agreement from Government of Pakistan. The Subsidiary has commenced its commercial production from June 9, 2010. It has generated sales of Rs 1,018.364 million and earned a net profit of Rs 47.177 million in the year ended 30 June 2010.

**For and on behalf of Board of Directors**

**(Mian Umer Mansha)**
**Chief Executive Officer/Chairman**
**Lahore: September 9, 2010**

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Nishat Mills Limited (the Holding Company) and its Subsidiary Companies (together referred to as Group) as at 30 June 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Nishat Mills Limited. The financial statements of the Subsidiary Company, Nishat Power Limited was audited by another firm of auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such Company, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The financial statements of Nishat USA, Inc. (Subsidiary Company) for the year ended 30 June 2010 were un-audited. Hence, total assets and total liabilities of Rupees 4,326,081 and Rupees 879,386 respectively as at 30 June 2010 and net loss of Rupees 39,758 for the year ended 30 June 2010 pertaining to such Subsidiary Company have been incorporated in these consolidated financial statements by the management using the un-audited financial statements.

Adjustments of Rupees 7,200,724,248 made during the year ended 30 June 2010 in the carrying amounts of investments accounted for under equity method in Note 13.1 to the consolidated financial statements are based on un-audited financial statements of such associated companies.

In our opinion, except for any adjustments that may have been required due to the un-audited figures in respect of Nishat USA, Inc. (Subsidiary Company) and associated companies as referred to in above paragraphs of the report, the consolidated financial statements present fairly the financial position of Nishat Mills Limited and its Subsidiary Companies as at 30 June 2010 and the results of their operations for the year then ended.

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

**RIAZ AHMAD & COMPANY**
**Chartered Accountants**

**Name of engagement partner:**
**Sarfraz Mahmood**

**Date: September 9, 2010**

**LAHORE**

# CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2010

| | Note | 2010 (RUPEES IN THOUSAND) | 2009 Restated (RUPEES IN THOUSAND) |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| **Authorised share capital** | | | |
| 1,100,000,000 (2009: 1,100,000,000) ordinary shares of Rupees 10 each | | **11,000,000** | 11,000,000 |
| **Issued, subscribed and paid up share capital** | 3 | **3,515,999** | 2,424,827 |
| **Reserves** | 4 | **34,762,289** | 22,117,099 |
| **Equity attributable to equity holders of the parent** | | **38,278,288** | 24,541,926 |
| **Minority interest** | | **1,559,986** | 1,023,169 |
| **Total equity** | | **39,838,274** | 25,565,095 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term financing | 5 | **16,404,955** | 13,730,957 |
| Deferred tax | 6 | **310,976** | 249,396 |
| | | **16,715,931** | 13,980,353 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 7 | **2,909,695** | 1,318,288 |
| Accrued mark-up | 8 | **816,436** | 638,872 |
| Short term borrowings | 9 | **9,441,973** | 7,342,600 |
| Current portion of long term financing | 5 | **1,867,912** | 686,753 |
| Provision for taxation | | **438,248** | 315,918 |
| | | **15,474,264** | 10,302,431 |
| **TOTAL LIABILITIES** | | **32,190,195** | 24,282,784 |
| **CONTINGENCIES AND COMMITMENTS** | 10 | | |
| **TOTAL EQUITY AND LIABILITIES** | | **72,028,469** | 49,847,879 |

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

**CHIEF EXECUTIVE OFFICER**

| | Note | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **28,473,874** | 26,170,143 |
| Investment properties | 12 | **132,550** | 41,049 |
| Long term investments | 13 | **25,892,058** | 15,546,837 |
| Long term loans | 14 | **25,918** | 12,367 |
| Long term deposits and prepayments | 15 | **17,166** | 12,174 |
| | | **54,541,566** | 41,782,570 |
| **CURRENT ASSETS** | | | |
| Stores, spare parts and loose tools | 16 | **904,316** | 561,251 |
| Stock in trade | 17 | **6,414,919** | 4,092,641 |
| Trade debts | 18 | **4,709,853** | 1,300,366 |
| Loans and advances | 19 | **1,144,952** | 462,256 |
| Short term deposits and prepayments | 20 | **32,430** | 30,491 |
| Other receivables | 21 | **839,564** | 331,255 |
| Short term investments | 22 | **1,554,543** | 1,116,185 |
| Cash and bank balances | 23 | **1,886,326** | 170,864 |
| | | **17,486,903** | 8,065,309 |
| **TOTAL ASSETS** | | **72,028,469** | 49,847,879 |

**DIRECTOR**

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

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | (RUPEES IN THOUSAND) | |
| | | | Restated |
| SALES | 24 | **32,554,012** | 23,870,379 |
| COST OF SALES | 25 | **26,350,899** | 19,518,838 |
| GROSS PROFIT | | **6,203,113** | 4,351,541 |
| DISTRIBUTION COST | 26 | **1,714,571** | 1,315,461 |
| ADMINISTRATIVE EXPENSES | 27 | **562,171** | 440,953 |
| OTHER OPERATING EXPENSES | 28 | **289,080** | 191,608 |
| | | **2,565,822** | 1,948,022 |
| | | **3,637,291** | 2,403,519 |
| OTHER OPERATING INCOME | 29 | **424,445** | 534,947 |
| PROFIT FROM OPERATIONS | | **4,061,736** | 2,938,466 |
| FINANCE COST | 30 | **1,308,396** | 1,446,796 |
| | | **2,753,340** | 1,491,670 |
| SHARE OF PROFIT IN ASSOCIATED COMPANIES | 13.1 | **5,857,043** | 494,774 |
| PROFIT BEFORE TAXATION | | **8,610,383** | 1,986,444 |
| PROVISION FOR TAXATION | 31 | **395,631** | 296,292 |
| PROFIT AFTER TAXATION | | **8,214,752** | 1,690,152 |
| SHARE OF PROFIT ATTRIBUTABLE TO: | | | |
| EQUITY HOLDERS OF PARENT | | **8,194,245** | 1,673,900 |
| MINORITY INTEREST | | **20,507** | 16,252 |
| | | **8,214,752** | 1,690,152 |
| EARNINGS PER SHARE- BASIC AND DILUTED (RUPEES) | 33 | **29.52** | 8.23 |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

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

| | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|
| **PROFIT AFTER TAXATION** | **8,214,752** | 1,690,152 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Surplus / (deficit) arising on remeasurement of available for sale investments | **1,754,793** | (10,153,546) |
| Reclassification adjustments relating to gain realized on disposal of available for sale investment | **(70,684)** | - |
| Deferred income tax relating to surplus on available for sale investment | **(61,580)** | 169,116 |
| | **1,622,529** | (9,984,430) |
| Effect of translation of net investment in foreign branches | **6,953** | 1,828 |
| Exchange differences on translating foreign operation | **161** | 109 |
| | **7,114** | 1,937 |
| Other comprehensive income / (loss) for the year - net of tax | **1,629,643** | (9,982,493) |
| **TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR** | **9,844,395** | (8,292,341) |
| **SHARE OF PROFIT/ (LOSS) ATTRIBUTABLE TO:** | | |
| EQUITY HOLDERS OF PARENT | **9,823,888** | (8,308,593) |
| MINORITY INTEREST | **20,507** | 16,252 |
| | **9,844,395** | (8,292,341) |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2010

| | Note | 2010 | 2009 Restated |
|---|---|---|---|
| | | (RUPEES IN THOUSAND) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Cash (used in) / generated from operations** | 34 | **(539,838)** | 3,901,474 |
| Finance cost paid | | **(3,183,416)** | (1,113,077) |
| Income tax paid | | **(350,581)** | (258,035) |
| Gratuity paid | | **-** | (3,746) |
| Exchange gain on forward exchange contract received | | **64,725** | - |
| Net increase in long term loans | | **(19,570)** | (7,214) |
| Net increase in long term deposits and prepayments | | **(4,123)** | (1,435) |
| **Net cash (used in) / generated from operating activities** | | **(4,032,803)** | 2,517,967 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | **145,457** | 30,514 |
| Dividends received | | **559,134** | 509,552 |
| Investments made | | **(3,738,515)** | (497,284) |
| Acquisition of foreign subsidiary | | **-** | (2,801) |
| Capital expenditure on property, plant and equipment | | **(1,603,319)** | (12,140,722) |
| **Net cash used in investing activities** | | **(4,637,243)** | (12,100,741) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long term financing | | **4,450,969** | 9,808,173 |
| Proceeds from issue of right shares | | **4,364,688** | 1,997,321 |
| Proceeds from disposal of interest to minority shareholders | | **547,500** | 852,500 |
| Cost of issuance of shares | | **-** | (11,058) |
| Repayment of long term financing | | **(595,813)** | (583,113) |
| Exchange difference on translation of the net investment in foreign subsidiary | | **161** | 109 |
| Short term borrowings - net | | **2,099,373** | (1,995,974) |
| Dividend paid | | **(481,370)** | (393,253) |
| **Net cash generated from financing activities** | | **10,385,508** | 9,674,705 |
| **Net increase in cash and cash equivalents** | | **1,715,462** | 91,931 |
| **Cash and cash equivalents at the beginning of the year** | | **170,864** | 78,933 |
| **Cash and cash equivalents at the end of the year** | | **1,886,326** | 170,864 |

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

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2010

(RUPEES IN THOUSAND)

| | SHARE CAPITAL | ATTRIBUTABLE TO EQUITY HOLDERS OF THE HOLDING COMPANY | | | | | | | | | | | | MINORITY INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | CAPITAL RESERVES | | | | | | REVENUE RESERVES | | | | TOTAL RESERVES | SHARE-HOLDERS' EQUITY | | |
| | | Premium on issue of right shares | Fair value reserve | Exchange translation reserve | Capital redemption reserve fund | Statutory reserve | Sub Total | General reserve | Amalgam-tion reserve | Unappro-priated profit | Sub Total | | | | |
| **Balance as at 30 June 2008** | 1,597,857 | 1,027,622 | 13,477,109 | - | 111,002 | - | 14,615,733 | 9,079,882 | 476,105 | 5,490,299 | 15,046,286 | 29,662,019 | 31,259,876 | 158,261 | 31,418,137 |
| Final dividend for the year ended 30 June 2008 @ Rupees 2.5 per share | - | - | - | - | - | - | - | - | - | (399,464) | (399,464) | (399,464) | (399,464) | - | (399,464) |
| Transfer to general reserve | - | - | - | - | - | - | - | 5,294,000 | - | (5,294,000) | - | - | - | - | - |
| Issuance of shares under scheme of amalgamation | 28,041 | - | - | - | - | - | - | - | (28,041) | - | (28,041) | (28,041) | - | - | - |
| Excess of net assets acquired in Nishat Apparel Limited | - | - | - | - | - | - | - | - | (448,064) | 448,064 | - | - | - | - | - |
| Right shares issued during the year ended 30 June 2009 | 798,929 | 1,198,392 | - | - | - | - | 1,198,392 | - | - | - | - | 1,198,392 | 1,997,321 | - | 1,997,321 |
| Share in reserves of associated companies under equity method | - | - | - | - | - | 25,061 | 25,061 | - | - | (25,061) | (25,061) | - | - | - | - |
| Disposal of interest to minority | - | - | - | - | - | - | - | - | - | - | - | - | - | 852,500 | 852,500 |
| Share issuance cost - net | - | - | - | - | - | - | - | - | - | (7,214) | (7,214) | (7,214) | (7,214) | (3,844) | (11,058) |
| Total comprehensive income / (loss) for the year ended 30 June 2009 | - | - | (9,984,430) | 1,937 | - | - | (9,982,493) | - | - | 1,673,900 | 1,673,900 | (8,308,593) | (8,308,593) | 16,252 | (8,292,341) |
| **Balance as at 30 June 2009** | 2,424,827 | 2,226,014 | 3,492,679 | 1,937 | 111,002 | 25,061 | 5,856,693 | 14,373,882 | - | 1,886,524 | 16,260,406 | 22,117,099 | 24,541,926 | 1,023,169 | 25,565,095 |
| Final dividend for the year ended 30 June 2009 @ Rupees 2 per share | - | - | - | - | - | - | - | - | - | (484,965) | (484,965) | (484,965) | (484,965) | - | (484,965) |
| Transfer to general reserve | - | - | - | - | - | - | - | 1,350,000 | - | (1,350,000) | - | - | - | - | - |
| Right shares issued during the year ended 30 June 2010 | 1,091,172 | 3,273,516 | - | - | - | - | 3,273,516 | - | - | - | - | 3,273,516 | 4,364,688 | - | 4,364,688 |
| Share in reserves of associated companies under equity method | - | - | - | - | - | 108,512 | 108,512 | - | - | (108,512) | (108,512) | - | - | - | - |
| Share in surplus on revaluation of fixed assets relating to incremental depreciation- net of tax - under equity method | - | - | - | - | - | - | - | - | - | 1,561 | 1,561 | 1,561 | 1,561 | - | 1,561 |
| Disposal of interest to minority | - | - | - | - | - | - | - | - | - | 31,190 | 31,190 | 31,190 | 31,190 | 516,310 | 547,500 |
| Total comprehensive income / (loss) for the year ended 30 June 2010 | - | - | 1,622,529 | 7,114 | - | - | 1,629,643 | - | - | 8,194,245 | 8,194,245 | 9,823,888 | 9,823,888 | 20,507 | 9,844,395 |
| **Balance as at 30 June 2010** | 3,515,999 | 5,499,530 | 5,115,208 | 9,051 | 111,002 | 133,573 | 10,868,364 | 15,723,882 | - | 8,170,043 | 23,893,925 | 34,762,289 | 38,278,288 | 1,559,986 | 39,838,274 |

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

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

## 1. THE GROUP AND ITS OPERATIONS

The Group consists of:

**Holding Company**

- Nishat Mills Limited

**Subsidiary Companies**

- Nishat Power Limited
- Nishat USA, Inc.

**NISHAT MILLS LIMITED**

Nishat Mills Limited is a public limited Company incorporated in Pakistan under the Companies Act, 1913 (Now Companies Ordinance, 1984) and listed on all Stock Exchanges in Pakistan. Its registered office is situated at 53-A, Lawrence Road, Lahore. The Company is engaged in the business of textile manufacturing and of spinning, combing, weaving, bleaching, dyeing, printing, stitching, apparel, buying, selling and otherwise dealing in yarn, linen, cloth and other goods and fabrics made from raw cotton, synthetic fibre and cloth and to generate, accumulate, distribute, supply and sell electricity.

**NISHAT POWER LIMITED**

Nishat Power Limited is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984 and listed on Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited in Pakistan. The principal activity of the Company is to build, own, operate and maintain a fuel fired power station having gross capacity of 200 MW ISO in Jamber Kalan, Tehsil Pattoki, District Kasur, Punjab, Pakistan. Its commercial operations have commenced from 09 June 2010. Its registered office is situated at 53-A, Lawrence Road, Lahore.

**NISHAT USA, INC.**

Nishat USA, Inc. is a foreign subsidiary incorporated under the Business Corporation Laws of the State of New York. The registered office of Nishat USA, Inc. is situated at 676 Broadway, New York, NY 10012, U.S.A. The principal business of the Subsidiary Company is to provide marketing services to Nishat Mills Limited - Holding Company. Nishat Mills Limited acquired 100% shareholding of Nishat USA, Inc. on 01 October 2008.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## 2.1 Basis of preparation

### a) Statement of compliance

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

### b) Accounting Convention

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

### c) Critical accounting estimates and judgments

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

**Financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on market conditions existing at balance sheet date.

**Useful lives, patterns of economic benefits and impairments**

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

**Taxation**

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

**Provision for doubtful debts**

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

**Impairment of investments in equity method accounted associated companies**

In making an estimate of recoverable amount of the Group's investments in equity method accounted associated companies, the management considers future cash flows.

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

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

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

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

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

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

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset. The Group's accounting policy on borrowing cost, as disclosed in note 2.12, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Group's accounting policy.

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

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

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

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

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

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

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

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

**h) Exemption from applicability of IFRIC 4 'Determining whether an Arrangement contains a Lease'**

- IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' is applicable for periods beginning on or after 01 January 2006, however, Independent Power Producers (IPPs), whose letter of intent has been / will be signed on or before 30 June 2010, have been exempted from its application by the Securities and Exchange Commission of Pakistan (SECP). This interpretation provides guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for as a lease in accordance with International Accounting Standard (IAS) 17 'Leases'.

Consequently, the Subsidiary Company is not required to account for a portion of its Power Purchase Agreement (PPA) with National Transmission and Dispatch Company Limited (NTDCL) as a lease under IAS 17 'Leases'. If the Subsidiary Company were to follow IFRIC 4 and IAS 17, the effect on these consolidated financial statements would be as follows:

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| De-recognition of property, plant and equipment | **(16,659,643)** | (15,587,284) |
| Recognition of lease debtor | **16,663,574** | - |
| Recognition of inventory | **-** | 15,587,284 |
| Decrease in unappropriated profit at the beginning of the year | **-** | - |
| Increase in profit for the year | **3,931** | - |
| Increase in unappropriated profit at the end of the year | **3,931** | - |

## 2.2 Consolidation

### (a) Subsidiaries

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

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

Intragroup balances and transactions have been eliminated.

Minority interests are that part of net results of the operations and of net assets of Subsidiary Companies attributable to interest which are not owned by the Holding Company. Minority interests are presented as separate item in the consolidated financial statements.

**(b) Associates**

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in these associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associate includes goodwill identified on acquisition, net of any accumulated impairment loss, if any.

The Group's share of its associate's post-acquisition profits or losses, movement in other comprehensive income, and its share of post-acquisition movements in reserves is recognized in the profit and loss account, statement of comprehensive income and reserves respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

**(c) Translation of the financial statements of foreign subsidiary**

The financial statements of foreign subsidiary of which the functional currency is different from that used in preparing the Group's consolidated financial statements are translated in functional currency of the Group. Balance sheet items are translated at the exchange rate at the balance sheet date and profit and loss account items are converted at the average rate for the period. Any resulting translation differences are recognized under exchange translation reserve in consolidated reserves.

**2.3 Employee benefit**

The Group operates an approved funded provident fund scheme covering all permanent employees. Equal monthly contributions are made both by the employer and employees at the rate of 9.5 percent of the basic salary to the fund. The employer's contributions to the fund are charged to profit and loss account.

**2.4 Taxation**

**Current**

**Holding Company**

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

**Subsidiary Companies**

The profits and gains of Nishat Power Limited derived from electric power generation are exempt from tax in terms of Clause (132) of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the conditions and limitations provided therein.

Under clause 11(v) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001, the Company is also exempt from levy of minimum tax on 'turnover' under section 113 of the Income Tax Ordinance, 2001. However, full provision is made in the profit and loss account on income from sources not covered under the above clauses at current rates of taxation after taking into account, tax credits and rebates available, if any.

Provision for income tax on the income of foreign subsidiary - Nishat USA Inc. is computed in accordance with the tax legislation in force in the country where the income is taxable.

**Deferred**

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

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

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

## 2.5 Goodwill

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

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

## 2.6 Foreign currencies

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

## 2.7 Property, plant, equipment and depreciation

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

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

**Depreciation**

Depreciation on property, plant and equipment is charged to consolidated profit and loss account applying the reducing balance method, except in case of Nishat Power Limited - Subsidiary Company, where this accounting estimate is based on straight line method, so as to write off the cost / depreciable amount of the assets over their estimated useful lives at the rates given in Note 11.1. The depreciation is charged on additions from the date when the asset is available for use and on deletions upto the date when the asset is de-recognized. The residual values and useful lives are reviewed by the management, at each financial year end and adjusted if impact on depreciation is significant.

Previously, depreciation on operating fixed assets was charged by Nishat Power Limited - Subsidiary Company on reducing balance method. However, during the year, the Subsidiary Company's management carried out a comprehensive review of the pattern of consumption of economic benefits of the operating fixed assets. Now the Subsidiary Company charges depreciation on operating fixed assets on straight line method. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

**De-recognition**

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the consolidated profit and loss account in the year the asset is de-recognized.

## 2.8 Investment properties

Land and buildings held for capital appreciation or to earn rental income are classified as investment properties. Investment properties except land, are stated at cost less accumulated depreciation and any recognized impairment loss (if any). Land is stated at cost less any recognized impairment loss (if any). Depreciation is charged to consolidated profit and loss account applying the reducing balance method so as to write off the cost of building over its estimated useful life at the rate of 10%.

## 2.9 Leases

The Group Companies are the lessee:

### a) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated profit and loss on a straight line basis over the lease term.

## 2.10 Investments

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

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

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

### a) Investment at fair value through profit or loss

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

### b) Held-to-maturity

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

### c) Available-for-sale

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

**Quoted**

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

**Unquoted**

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

## 2.11 Inventories

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

**Stores, spare parts and loose tools**

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

**Stock-in-trade**

Cost of raw material, work-in-process and finished goods is determined as follows:

| | | |
|---|---|---|
| (i) | For raw materials: | Annual average basis. |
| (ii) | For work-in-process and finished goods: | Average manufacturing cost including a portion of production overheads. |

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

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

## 2.12 Borrowing cost

Interest, mark-up and other charges on finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such finances. All other interest, mark-up and other charges are recognized in consolidated profit and loss account.

### 2.13 Share Capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, if any.

### 2.14 Revenue recognition

Revenue from different sources is recognized as under:

- Revenue from sale of goods is recognized on despatch of goods to customers.

- Revenue on account of energy is recognized at the time of transmission whereas on account of capacity is recognized when due.

- The share of profits or losses of the associated companies after tax is included in the consolidated profit and loss account to recognize the post acquisition changes in the share of the net assets of the investees. Dividend from associated companies is recognized as reduction in cost of investments as prescribed by International Accounting Standard (IAS) 28, ' Investment in Associates'.

- Dividend on other equity investments is recognized when right to receive the dividend is established.

- Profit on deposits with banks is recognized on time proportion basis taking into account the amounts outstanding and rates applicable thereon.

### 2.15 Financial instruments

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

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

### 2.16 Trade and other receivables

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

## 2.17 Borrowings

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

## 2.18 Trade and other payables

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

## 2.19 Provisions

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

## 2.20 Impairment

### a) Financial assets

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

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

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

### b) Non financial assets

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

## 2.21 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognized in the consolidated balance sheet at estimated fair value with corresponding effect to consolidated profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

## 2.22 Off setting

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

## 2.23 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks on current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

## 2.24 Segment reporting

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

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

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

Transaction among the business segments are recorded on cost basis. Inter segment sales and purchases are eliminated from the total.

## 2.25 Related party transactions and transfer pricing

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

## 2.26 Dividend and other appropriations

Dividend distribution to the shareholders is recognized as a liability in the consolidated financial statements in the periods in which the dividends are declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

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

| (NUMBER OF SHARES) 2010 | 2009 | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|---|
| **256,772,316** | 147,655,122 | Ordinary shares of Rupees 10 each fully paid up in cash | **2,567,723** | 1,476,551 |
| **2,804,079** | 2,804,079 | Ordinary shares of Rupees 10 each issued to shareholders of Nishat Apparel Limited under the Scheme of Amalgamation | **28,041** | 28,041 |
| **37,252,280** | 37,252,280 | Ordinary shares of Rupees 10 each issued as fully paid for consideration other than cash | **372,523** | 372,523 |
| **54,771,173** | 54,771,173 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | **547,712** | 547,712 |
| **351,599,848** | 242,482,654 | | **3,515,999** | 2,424,827 |

### 3.1 Movement during the year

| (NUMBER OF SHARES) 2010 | 2009 | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|---|
| **242,482,654** | 159,785,717 | At 01 July | **2,424,827** | 1,597,857 |
| **-** | 2,804,079 | Ordinary shares of Rupees 10 each issued to shareholders of Nishat Apparel Limited under the Scheme of Amalgamation | **-** | 28,041 |
| **109,117,194** | 79,892,858 | Ordinary shares of Rupees 10 each issued during the year as fully paid right shares | **1,091,172** | 798,929 |
| **351,599,848** | 242,482,654 | | **3,515,999** | 2,424,827 |

**3.2** Ordinary shares of the Holding Company held by associated companies:

| | (NUMBER OF SHARES) 2010 | 2009 |
|---|---|---|
| D.G. Khan Cement Company Limited | **30,289,501** | 20,889,312 |
| Adamjee Insurance Company Limited | **1,258,650** | 868,035 |
| | **31,548,151** | 21,757,347 |

| | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|

## 4. RESERVES

**Composition of reserves is as follows:**

**Capital**

| | 2010 | 2009 Restated |
|---|---|---|
| Premium on issue of right shares (Note 4.1) | **5,499,530** | 2,226,014 |
| Fair value reserve - net of deferred tax (Note 4.2) | **5,115,208** | 3,492,679 |
| Exchange translation reserve | **9,051** | 1,937 |
| Statutory reserve (Note 4.3) | **133,573** | 25,061 |
| Capital redemption reserve fund (Note 4.4) | **111,002** | 111,002 |
| | **10,868,364** | 5,856,693 |
| **Revenue** | | |
| General | **15,723,882** | 14,373,882 |
| Unappropriated profit | **8,170,043** | 1,886,524 |
| | **23,893,925** | 16,260,406 |
| | **34,762,289** | 22,117,099 |

**4.1** This reserve can be utilized only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

**4.2** This represents the unrealized gain on re-measurement of available for sale investments at fair value and is not available for distribution. This will be transferred to consolidated profit and loss account on realization. Reconciliation of fair value reserve net off deferred tax is as under:

| | 2010 | 2009 Restated |
|---|---|---|
| Balance as at 01 July | **3,742,075** | 13,895,621 |
| Less : Fair value adjustment during the year | **1,684,109** | (10,153,546) |
| | **5,426,184** | 3,742,075 |
| Less: Deferred tax liability on unquoted equity investment | **(310,976)** | (249,396) |
| Balance as at 30 June | **5,115,208** | 3,492,679 |

**4.3** This reserve was created by MCB Bank Limited - equity method accounted for associated company as per the requirements of section 21 of Banking Companies Ordinance, 1962.

**4.4** This reserve was created by D. G. Khan Cement Company Limited - equity method accounted for associated company to redeem the preference shares.

## 5. LONG TERM FINANCING

**From banking companies - secured**

| | 2010 | 2009 Restated |
|---|---|---|
| Long term loans (Note 5.1) | **17,472,867** | 14,417,710 |
| Long term musharika (Note 5.2) | **800,000** | - |
| | **18,272,867** | 14,417,710 |
| Less: Current portion shown under current liabilities | **1,867,912** | 686,753 |
| | **16,404,955** | 13,730,957 |

5.1 Long term loans

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| **Nishat Mills Limited - Holding Company** | | | | | | | |
| Allied Bank Limited | **225,000** | 300,000 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 24 January 2007 and ending on 24 October 2011. | - | Quarterly | First joint pari passu hypothecation charge on plant and machinery of the Company for an amount of Rupees 800 million. |
| United Bank Limited | **37,500** | 112,500 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 30 June 2006 and ending on 31 December 2010. | - | Quarterly | Mortgage charge on the immovable property and machinery of the Company. |
| Habib Bank Limited | **400,000** | 500,000 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 07 July 2007 and ending on 07 January 2012. | - | Quarterly | First pari passu hypothecation charge of Rupees 1,067 million on plant and machinery of the Company excluding specific and exclusive charges. |
| Saudi Pak Industrial and Agricultural Investment Company (Private) Limited | **187,500** | 200,000 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 30 April 2010 and ending on 31 January 2014. | - | Quarterly | Exclusive hypothecation charge on specific plant and machinery for an amount of Rupees 267 million. |
| Standard Chartered Bank (Pakistan) Limited | **-** | 33,333 | SBP rate for LTF - EOP + 2% | Six equal half yearly instalments commenced on 30 September 2006 and ended on 31 March 2010. | - | Quarterly | First exclusive hypothecation charge on plant, machinery and equipment installed at Sheikhupura (Bhikki). |
| Citibank N.A. | **62,500** | 125,000 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 21 April 2006 and ending on 21 October 2010. | - | Quarterly | First ranking pari passu charge on all present and future fixed assets, excluding land and building. |
| The Royal Bank of Scotland Limited | **35,294** | 58,824 | SBP rate for LTF - EOP + 2% | Sixteen equal quarterly instalments commenced on 15 February 2006 and ending on 15 February 2011. | - | Quarterly | First pari passu charge on plant and machinery for an amount of Rupees 267 million. |
| The Hong Kong and Shanghai Banking Corporation Limited | **100,000** | 125,000 | SBP rate for LTF - EOP + 2% | Ten equal half yearly instalments commenced on 01 December 2006 and ending on 01 June 2011. | - | Quarterly | Registered ranking charge on plant and machinery of the Company. |
| Habib Bank limited | | | | | | | |
| Loan provided by the bank from own sources | **752,857** | 1,000,000 | 6 Month offer KIBOR + 2.50% | Eight equal half yearly instalments commenced on 10 May 2010 and ending on 10 November 2013. | Half yearly | Quarterly | First pari-passu hypothecation charge of Rupees 2,000 million on plant and machinery of the Company excluding specific and exclusive charges. |
| Refinanced by SBP under scheme of LTFF | **122,143** | - | SBP rate for LTFF+ 2.5% | Eight equal half yearly instalments commenced on 09 May 2010 and ending on 09 November 2013. | - | Quarterly | |
| | **875,000** | 1,000,000 | | | | | |
| Allied Bank Limited | **98,047** | 122,558 | SBP rate for LTF - EOP + 2% | Eight equal half yearly instalments commenced on 15 November 2007 and ending on 08 May 2012. | - | Quarterly | First pari passu charge of Rupees 267 million on all present and future fixed assets of the Company excluding land and building. |
| Allied Bank Limited | **50,000** | 75,000 | 6 Month offer KIBOR+1.50 % | Eight equal half yearly instalments commenced on 07 October 2008 and ending on 07 April 2012. | Half yearly | Quarterly | First pari passu charge of Rupees 133 million on all present and future fixed assets of the Company excluding land and building. |
| Askari Bank Limited | **101,070** | 115,509 | SBP rate for LTF - EOP + 2% | Ten equal half yearly instalments commenced on 17 January 2008 and ending on 01 November 2013. | - | Quarterly | First pari passu charge of Rupees 213.33 million on all present and future fixed assets of the Company. |

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Samba Bank Limited | | | | | | | |
| Loan provided by the bank from own sources | **421,282** | - | 6 Month offer KIBOR+1.25% | Eight equal half yearly instalments commencing on 30 June 2011 and ending on 31 December 2014. | Half yearly | Half yearly | First pari passu hypothecation charge on all present and future plant and machinery of the Company (excluding land and building and any other fixed assets under exclusive charge of any bank) to the extent of Rupees 667 million with 25% margin. |
| Refinanced by SBP under scheme of LTFF | **78,718** | - | SBP rate for LTFF + 2.5% | Eight equal half yearly instalments commencing on 27 July 2011 and ending on 27 January 2015. | - | Quarterly | |
| | **500,000** | - | | | | | |
| Silk Bank Limited | **102,188** | - | SBP rate for LTFF + 2.5% | Sixteen equal quarterly instalments commencing on 31 March 2011 and ending on 31 December 2014. | - | Quarterly | Ranking charge on plant and machinery of the Company (excluding those assets on which the company has provided first exclusive charge to its various lenders) for Rupees 135 million. |
| Pak Brunei Investment Company Limited | **235,227** | - | SBP rate for LTFF+ 2.25% | Twelve half yearly instalments commencing on 19 July 2011 and ending on 19 January 2017. | - | Quarterly | Ranking charge by way of hypothecation over all the present and future plant and machinery of the Company excluding those assets (part of the plant and machinery) on which the Company has created exclusive charges. |
| Pakistan Kuwait Investment Company (Private) Limited | | | | | | | |
| Refinanced by SBP under scheme of LTFF | **149,979** | - | SBP rate for LTFF+ 2.5% | Eighteen equal quarterly instalments commencing on 09 December 2010 and ending on 09 March 2015. | - | Quarterly | Ranking charge of Rupees 400 million on plant, machinery and equipment of the Company with 25 % margin |
| Loan provided by the investment company from own sources | **150,021** | - | 6 Month offer KIBOR+2% | Eighteen equal quarterly instalments commencing on 09 December 2010 and ending on 09 March 2015. | Half yearly | Quarterly | |
| | **300,000** | - | | | | | |
| | **3,309,326** | 2,767,724 | | | | | |
| **Nishat Power Limited - Subsidiary Company** | | | | | | | |
| Consortium of banks (Note 5.1.1) | **14,163,541** | 11,649,986 | 3-Month KIBOR + 3.00% | Forty equal quarterly installments commencing on 01 July 2010 and ending on 01 April 2020. | Quarterly | Quarterly | First joint pari passu charge on immovable property, mortgage of project receivables, hypothecation of all present and future assets and all properties of Nishat Power Limited - NPL (excluding the mortgaged immovable property), lien over project bank accounts and pledge of shares of the holding company in Nishat Power Limited. |
| | **14,163,541** | 11,649,986 | | | | | |
| | **17,472,867** | 14,417,710 | | | | | |

**5.1.1** This represents long term financing obtained by Nishat Power Limited - Subsidiary Company from a consortium of five banks led by Habib Bank Limited (agent bank) and includes National Bank of Pakistan, Allied Bank Limited, United Bank Limited and Faysal Bank Limited. The portion of long term financing from Faysal Bank Limited is on murabaha basis. The original project financing facility was for Rupees 12,260 million (2009: Rupees 12,260 million). During the year, the Company obtained a term finance facility of Rupees 1,904 million to cover the additional cost of the power project from the lenders of the original project finance facility on the same terms and conditions. The effective markup rate charged during the year ranges from 15.34% to 15.77% (2009: 15.77% to 18.50%) per annum. The amount of the current maturity is based on the tentative repayment schedule to the Nishat Power Limited - Subsidiary Company's management and is subject to change as it is under discussion with the lenders.

**5.2 Long term musharika - Nishat Mills Limited - Holding Company**

| Lender | 2010 | 2009 | Rate of interest per annum | Number of instalments | Interest repricing | Interest payable | Security |
|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | |
| Meezan Bank Limited | **300,000** | - | 3 Month offer KIBOR+1.25% | Eight equal quarterly instalments commencing on 29 March 2011 and ending on 29 December 2012. | Quarterly | Quarterly | Exclusive charge on specific plant and machinery at least equal to outstanding facility amount plus 25% margin thereof. |
| Standard Chartered Bank (Pakistan) Limited | **500,000** | - | 6 Month offer KIBOR+1.25% margin for first two years and 1.75% margin for remaining period | Eight equal half yearly instalments commencing on 12 October 2011 and ending on 12 April 2015. | Half yearly | Half yearly | Registered first charge amounting to Rupees 667 million on specific fixed assets of the Company. |
| | **800,000** | - | | | | | |

## 6. DEFERRED TAX

This represents deferred tax liability on surplus on revaluation of unquoted equity investment available for sale. Provision for deferred tax on other temporary differences was not considered necessary as the Holding Company is chargeable to tax under section 169 of the Income Tax Ordinance, 2001 and temporary differences of Nishat Power Limited - Subsidiary company are not expected to reverse in the foreseeable future due to the fact that the profits and gains derived from electric power generation are exempt from tax.

## 7. TRADE AND OTHER PAYABLES

| | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|
| Creditors (Note 7.1) | **2,044,080** | 661,718 |
| Accrued liabilities | **448,556** | 428,226 |
| Advances from customers | **114,617** | 63,744 |
| Securities from contractors-interest free, repayable on completion of contracts | **20,515** | 17,237 |
| Income tax deducted at source | **4,002** | 4,038 |
| Dividend payable | **31,775** | 28,180 |
| Payable to employees provident fund trust | **932** | 1,156 |
| Workers' profit participation fund (Note 7.2) | **176,711** | 82,641 |
| Workers' welfare fund | **68,507** | 31,348 |
| | **2,909,695** | 1,318,288 |

**7.1** This includes amount in aggregate of Rupees 44.001 million (2009: Rupees 17.548 million) due to associated undertakings.

### 7.2 Workers' profit participation fund

| | 2010 | 2009 |
|---|---|---|
| Balance as on 01 July | **82,641** | 70,497 |
| Interest for the year (Note 30) | **1,053** | 2,787 |
| Add: Provision for the year | **176,711** | 82,641 |
| | **260,405** | 155,925 |
| Less: Payments during the year | **83,694** | 73,284 |
| | **176,711** | 82,641 |

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **8. ACCRUED MARK-UP** | | |
| Long term financing (Note 8.1) | **647,511** | 510,575 |
| Short term borrowings (Note 8.2) | **168,925** | 128,297 |
| | **816,436** | 638,872 |

| | 2010 | 2009 |
|---|---|---|
| **9. SHORT TERM BORROWINGS** | | |
| **From banking companies - secured** | | |
| **Nishat Mills Limited - Holding Company** | | |
| Short term running finances (Note 9.1 and Note 9.2) | **232,827** | 1,514,025 |
| State Bank of Pakistan (SBP) refinance (Note 9.1 and 9.3) | **6,114,243** | 4,263,132 |
| Other short term finances (Note 9.1 and 9.4) | **-** | 1,080,000 |
| Temporary bank overdrafts (Note 9.1 and 9.2) | **302,377** | 485,443 |
| | **6,649,447** | 7,342,600 |
| **Nishat Power Limited - Subsidiary Company** | | |
| Short term running finance (Note 9.5) | **1,792,526** | - |
| Murabaha facility (Note 9.6) | **1,000,000** | - |
| | **2,792,526** | - |
| | **9,441,973** | 7,342,600 |

**9.1** These finances are obtained from banking companies under mark up arrangements and are secured against joint pari passu hypothecation charge on all present and future current assets, all marketable securities, other instruments, ranking hypothecation charge on plant and machinery, pledge of cotton and equity investments of the Holding Company. These form part of total credit facility of Rupees 19,569 million (2009: Rupees 20,077 million).

**9.2** The rates of mark-up range from 12.39% to 16.11% (2009: 12.37% to 18.50%) per annum on the balance outstanding.

**9.3** The rates of mark up range from 7.00% to 9.00% (2009: 6.90% to 7.50%) per annum on the balance outstanding.

**9.4** The rates of mark up range from 11.68% to 13.60% (2009: 4.26% to 16.11%) per annum on the balance outstanding.

**9.5** Short term running finance facilities available from a consortium of commercial banks under mark up arrangements of Rupees 2,573 million (2009: Nil) at mark up rate of 3 months KIBOR plus 2% per annum, payable quarterly, on the balance outstanding. It also includes a facility for opening letters of credit, of which the amount utilized as at 30 June 2010 is Rupees 0.672 million. The aggregate running finances are secured against first pari passu assignment of the fuel component of the energy payment price of the tariff, first pari passu hypothecation charge on the fuel stock / inventory, ranking charge over all present and future project assets (including moveable / immoveable assets) of the Subsidiary Company and a corporate guarantee from the Holding Company - Nishat Mills Limited. The effective mark up charged during the year on the outstanding balance ranges from 14.12% to 14.75% per annum.

**9.6** This represents a murabaha finance facility of Rupees 1,000 million under mark up arrangements from a commercial bank at a mark up rate of 6 months KIBOR plus 2% per annum to finance the procurement of multiple oils from the fuel supplier. Mark up is payable at the maturity of the respective Murabaha transaction. The facility is secured against first pari passu charge on current assets of the Subsidiary Company and assignment of receivables from NTDCL. The effective mark up rate charged during the year on the outstanding balance ranges from 14.18% to 14.85% per annum.

## 10. CONTINGENCIES AND COMMITMENTS

### Contingencies

**i)** Nishat Mills Limited - Holding Company is contingently liable for Rupees 87.378 million (2009: Rupees 86.313 million) on account of central excise duty not acknowledged as debt as the cases are pending before Court.

**ii)** Guarantees of Rupees 472.398 million (2009: Rupees 421.751 million) are given by the banks of the Nishat Mills Limited - Holding Company to Sui Northern Gas Pipelines Limited against gas connections, Shell Pakistan Limited against purchase of furnace oil, Director Excise and Taxation, Karachi and Collector of Customs, Excise and Sales Tax against infrastructure cess.

**iii)** Post dated cheques of Rupees 537.000 million (2009: Rupees 284.473 million) are issued by the Nishat Mills Limited - Holding Company to customs authorities in respect of duties on imported items availed on the basis of consumption and export plans. If documents of exports are not provided on due dates, cheques issued as security shall be encashable.

**iv)** Nishat Mills Limited - Holding Company has given performance guarantee of USD 1 million [Pak Rupees 85.600 million] (2009: USD 1 million [Pak Rupees 81.470 million] in favour of Private Power and Infrastructure Board to secure performance of Nishat Power Limited - Subsidiary company under Implementation Agreement and Power Purchase Agreement.

**v)** Irrevocable standby letters of credit of Rupees 430 million (2009: Rupees 410 million) given by Nishat Mills Limited - Holding Company for equity injection and Rupees Nil (2009: Rupees 147.120 million) for positive cost overrun, in accordance with Project Funds Agreement, in favour of security trustee of syndicated lenders of Nishat Power Limited - Subsidiary Company.

**vi)** Nishat Mills Limited's share in contingencies of associated companies' accounted for under equity method is Rupees 5,706.861 million (2009: Rupees 6,400.381 million).

**vii)** Nishat Power Limited - Subsidiary Company has issued irrevocable letter of credit of USD 5.370 million [Pak Rupees 459.642 million] (2009: USD 5.370 million [Pak Rupees 436.552 million] in favour of National Transmission and Despatch Company Limited (NTDCL) as required under Power Purchase Agreement.

**viii)** As per terms of Power Purchase Agreement with National Transmission and Despatch Company Limited (the power purchaser by the Nishat Power Limited - Subsidiary Company), the Required Commercial Operations Date of the power project was 31 December 2009. However, the Subsidiary Company achieved commercial operations on 09 June 2010. Consequently, the power purchaser may raise liquidated damages against the Subsidiary Company for not meeting the Required Commercial Operations Date in accordance with section 9.4 of the Power Purchase Agreement, which are estimated at USD 2.587 million equivalent to Rupees 221.464 million.

The Subsidiary Company's management has requested in writing to the power purchaser for extension in the Required Commercial Operations Date on the basis that the delay in commissioning was due to circumstances beyond the Subsidiary Company's control, which is under consideration of the power purchaser. The Subsidiary Company's management is confident that there are meritorious grounds that the power purchaser would not raise any liquidated damages against the Subsidiary Company. In light of the above, the Subsidiary Company's management considers that in case, the power purchaser raises the abovementioned liquidated damages against the Subsidiary Company, the Subsidiary Company is fully secure to pay the liquidated damages to the power purchaser from the funds received in respect of the liquidated damages from the Engineering, Procurement & Construction (EPC) contractor.

Consequently, no provision has been made in these consolidated financial statements for the above mentioned liquidated damages that may be raised by the power purchaser.

**Commitments**

**i)** Contracts for capital expenditure of the Group are approximately of Rupees 935.095 million (2009: Rupees 1,197.662 million).

**ii)** Letters of credit other than for capital expenditure of the Group are of Rupees 313.814 million (2009: Rupees 296.719 million).

**iii)** The Group has also commitments in respect of other contractors of Rupees 1.313 million (2009: Rupees 36.793 million)

**iv)** Nishat Power Limited - Subsidiary Company has entered into a contract for purchase of fuel oil from Shell Pakistan Limited (SPL) for a period of ten years starting from the commercial operations date of the power station i.e. 09 June 2010. Under the terms of the Fuel Supply Agreement, the Subsidiary Company is not required to buy any minimum quantity of oil from SPL.

**v)** Nishat Power Limited - Subsidiary Company has also entered into an agreement with Wartsila Pakistan (Private) Limited for the operations and maintenance (O&M) of the power station for a five years period starting from the commercial operations date of the power station i.e. 09 June 2010. Under the terms of the O&M agreement, the Subsidiary Company is required to pay a monthly fixed O&M fee and a variable O&M fee depending on the net electrical output, both of which are adjustable according to the Wholesale Price Index.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | **(RUPEES IN THOUSAND)** | |
|---|---|---|
| | **2010** | 2009 Restated |
| Operating fixed assets (Note 11.1) | **28,108,212** | 11,189,711 |
| Capital work in progress (Note 11.2) | **365,662** | 14,980,432 |
| | **28,473,874** | 26,170,143 |

## 11.1 Operating fixed assets

(RUPEES IN THOUSAND)

| | Freehold land | Buildings on freehold land | Plant and machinery | Electric installations | Factory equipment | Furniture, fixtures and office equipment | Computer equipment | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|
| **At 01 July 2008** | | | | | | | | | |
| Cost | 514,866 | 3,484,670 | 13,188,696 | 642,127 | 155,671 | 224,762 | 102,714 | 257,113 | 18,570,619 |
| Accumulated depreciation | - | (1,443,976) | (5,211,863) | (309,743) | (71,172) | (100,939) | (58,433) | (101,905) | (7,298,031) |
| Net book value | 514,866 | 2,040,694 | 7,976,833 | 332,384 | 84,499 | 123,823 | 44,281 | 155,208 | 11,272,588 |
| **Year ended 30 June 2009** | | | | | | | | | |
| Opening net book value | 514,866 | 2,040,694 | 7,976,833 | 332,384 | 84,499 | 123,823 | 44,281 | 155,208 | 11,272,588 |
| Additions | 58,761 | 141,776 | 770,065 | 18,804 | 31,974 | 28,145 | 6,533 | 50,701 | 1,106,759 |
| Transfer to investment properties: | | | | | | | | | |
| Cost | (18,756) | (46,090) | - | - | - | - | - | - | (64,846) |
| Accumulated depreciation | - | 21,209 | - | - | - | - | - | - | 21,209 |
| | (18,756) | (24,881) | - | - | - | - | - | - | (43,637) |
| Disposals: | | | | | | | | | |
| Cost | - | - | (38,608) | (9,398) | (6,612) | (2,230) | - | (29,034) | (85,882) |
| Accumulated depreciation | - | - | 25,848 | 7,742 | 4,591 | 1,649 | - | 17,953 | 57,783 |
| | - | - | (12,760) | (1,656) | (2,021) | (581) | - | (11,081) | (28,099) |
| Depreciation charge | - | (207,765) | (807,320) | (33,861) | (9,332) | (13,457) | (14,184) | (31,981) | (1,117,900) |
| Closing net book value | 554,871 | 1,949,824 | 7,926,818 | 315,671 | 105,120 | 137,930 | 36,630 | 162,847 | 11,189,711 |
| **At 30 June 2009** | | | | | | | | | |
| Cost | 554,871 | 3,580,356 | 13,920,153 | 651,533 | 181,033 | 250,677 | 109,247 | 278,780 | 19,526,650 |
| Accumulated depreciation | - | (1,630,532) | (5,993,335) | (335,862) | (75,913) | (112,747) | (72,617) | (115,933) | (8,336,939) |
| Net book value | 554,871 | 1,949,824 | 7,926,818 | 315,671 | 105,120 | 137,930 | 36,630 | 162,847 | 11,189,711 |
| **Year ended 30 June 2010** | | | | | | | | | |
| Opening net book value | 554,871 | 1,949,824 | 7,926,818 | 315,671 | 105,120 | 137,930 | 36,630 | 162,847 | 11,189,711 |
| Additions | 144,262 | 323,269 | 17,664,376 | 16,322 | 16,509 | 19,874 | 15,825 | 73,211 | 18,273,648 |
| Transfer to investment properties: | | | | | | | | | |
| Cost | (56,632) | (46,048) | - | - | - | - | - | - | (102,680) |
| Accumulated depreciation | - | 4,827 | - | - | - | - | - | - | 4,827 |
| | (56,632) | (41,221) | - | - | - | - | - | - | (97,853) |
| Transfer: | | | | | | | | | |
| Cost | - | - | (14,506) | - | - | - | - | 14,506 | - |
| Accumulated depreciation | - | - | 8,583 | - | - | - | - | (8,583) | - |
| | - | - | (5,923) | - | - | - | - | 5,923 | - |
| Disposals: | | | | | | | | | |
| Cost | - | - | (301,931) | (10,245) | (1,713) | (693) | (132) | (25,551) | (340,265) |
| Accumulated depreciation | - | - | 200,515 | 6,879 | 1,335 | 567 | 82 | 14,784 | 224,162 |
| | - | - | (101,416) | (3,366) | (378) | (126) | (50) | (10,767) | (116,103) |
| Depreciation charge | - | (195,334) | (835,530) | (32,806) | (11,323) | (16,528) | (13,107) | (36,563) | (1,141,191) |
| Closing net book value | 642,501 | 2,036,538 | 24,648,325 | 295,821 | 109,928 | 141,150 | 39,298 | 194,651 | 28,108,212 |
| **At 30 June 2010** | | | | | | | | | |
| Cost | 642,501 | 3,857,577 | 31,268,092 | 657,610 | 195,829 | 269,858 | 124,940 | 340,946 | 37,357,353 |
| Accumulated depreciation | - | (1,821,039) | (6,619,767) | (361,789) | (85,901) | (128,708) | (85,642) | (146,295) | (9,249,141) |
| Net book value | 642,501 | 2,036,538 | 24,648,325 | 295,821 | 109,928 | 141,150 | 39,298 | 194,651 | 28,108,212 |
| Annual rate of depreciation (%) | - | 4-10 | 4-10 | 10 | 10 | 10 | 30-33 | 20 | |

**11.1.1 Detail of operating fixed assets, exceeding the book value of Rupees 50,000 disposed of during the year is as follows:**

| Description | Qty | Cost | Accumulated depreciation | Net book value | Sale proceeds | Gain/ (Loss) | Mode of disposal | Particulars of purchasers |
|---|---|---|---|---|---|---|---|---|
| | | | (RUPEES IN THOUSAND) | | | | | |
| **Plant and Machinery** | | | | | | | | |
| Uster Optiscan | 1 | 11,925 | 8,285 | 3,640 | 150 | (3,490) | Negotiation | Pak Traders, Faisalabad. |
| Ring Frames China | 3 | 8,533 | 6,725 | 1,808 | 2,150 | 342 | Negotiation | Akram Cotton Mills Limited, Lahore. |
| Ring Frames China | 7 | 14,518 | 11,141 | 3,377 | 4,550 | 1,173 | Negotiation | Azgard Nine Limited, Lahore. |
| Murata Mach Coner | 1 | 3,256 | 1,976 | 1,280 | 2,000 | 720 | Negotiation | Habib Haseeb Spinning Mills (Private) Limited, Faisalabad. |
| Howa KZ Combers | 5 | 7,405 | 4,946 | 2,459 | 882 | (1,577) | Negotiation | Fahim Traders, Faisalabad. |
| Murata Mach Coner | 1 | 3,993 | 2,771 | 1,222 | 2,100 | 878 | Negotiation | Latif Textile Mills (Private) Limited, Karachi. |
| Autocone Winder | 1 | 9,258 | 7,743 | 1,515 | 2,940 | 1,425 | Negotiation | Khurshid Spinning Mills Limited, Faisalabad. |
| Ring Frames China | 6 | 12,444 | 9,713 | 2,731 | 6,468 | 3,737 | Negotiation | Wisal Kamal Fabric (Private) Limited,Sheikhupura. |
| Warping and Sizing | 2 | 27,555 | 22,750 | 4,805 | 4,054 | (751) | Negotiation | Mithela Textile Industries, Bangladesh. |
| Sulzer Looms | 16 | 68,704 | 56,048 | 12,656 | 18,720 | 6,064 | Negotiation | M.K. Sons (Private) Limited, Faisalabad. |
| Ring Frames China | 10 | 18,401 | 9,535 | 8,866 | 15,680 | 6,814 | Negotiation | Nadeem Textile Mills Limited, Karachi. |
| Sanforising Machine | 1 | 28,874 | 15,368 | 13,506 | 11,760 | (1,746) | Negotiation | Fair Deal Textile (Private) Limited, Karachi. |
| Caterpillar Generator 3516-B | 5 | 86,449 | 42,989 | 43,460 | 50,000 | 6,540 | Negotiation | Allied Engineer and Services Limited, Lahore. |
| | | 301,315 | 199,990 | 101,325 | 121,454 | 20,129 | | |
| **Factory Equipment** | | | | | | | | |
| Old Used Parts | 2 | 1,641 | 1,287 | 354 | 373 | 19 | Negotiation | Tanveer Ali, Nishatabad Faisalabad. |
| **Electric Installations** | | | | | | | | |
| Transformer 1000 KVA | 1 | 870 | 558 | 312 | 400 | 88 | Negotiation | Ghulam Mustafa, Faisalabad. |
| H.T. Panel | 1 | 488 | 274 | 214 | 225 | 11 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Transformer 3500 KVA | 1 | 1,075 | 713 | 362 | 1,800 | 1,438 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Transformer 1000 KVA | 1 | 2,350 | 1,726 | 624 | 625 | 1 | Negotiation | Indigo Spell 2-C.C.A, Lahore. |
| Cables, Transformer and Pannels | 2 | 4,432 | 2,810 | 1,622 | 5,000 | 3,378 | Negotiation | Allied Rental Modaraba, Karachi. |
| | | 9,215 | 6,081 | 3,134 | 8,050 | 4,916 | | |
| **Vehicles** | | | | | | | | |
| Toyota Corolla Saloon LZU-7447 | 1 | 1,304 | 748 | 556 | 559 | 3 | Negotiation | Mr. Khalid Javaid, Faisalabad. |
| Suzuki Cultus LZU-7219 | 1 | 651 | 381 | 270 | 507 | 237 | Negotiation | Syed Muhammad Bilal Zia, Lahore. |
| Suzuki Alto LZQ-7613 | 1 | 517 | 340 | 177 | 457 | 280 | Negotiation | Mrs. Uzma Naseem, Lahore. |
| Toyota Corolla LEJ-07-6849 | 1 | 1,161 | 397 | 764 | 948 | 184 | Negotiation | Mian Muhammad Hanif, Lahore. |
| Honda City AJN-0733 | 1 | 845 | 495 | 350 | 380 | 30 | Negotiation | Sheikh Muhammad Mansha, Karachi. |
| Toyota Corolla LEJ-07-1751 | 1 | 1,000 | 104 | 896 | 1,000 | 104 | Negotiation | Mr. Arshad Ali, Hafizabad. |
| Suzuki Cultus LWA-6861 | 1 | 619 | 349 | 270 | 532 | 262 | Negotiation | Mr. Jalal Mirza, Lahore. |
| Mitsubishi Lancer 1.6 GLX LEA-8904 | 1 | 1,118 | 561 | 557 | 604 | 47 | Negotiation | Mrs. Iffat Mahmood, Lahore. |
| Honda City LW-4006 | 1 | 890 | 525 | 365 | 737 | 372 | Negotiation | Mr. Muhammad Azam, Khanewal. |
| Suzuki Cultus LW-8186 | 1 | 646 | 381 | 265 | 268 | 3 | Negotiation | Mr. Irfan Butt (Company's employee), Lahore. |
| Honda City LWH-3412 | 1 | 948 | 533 | 415 | 420 | 5 | Negotiation | Mr. Muhammad Mumtaz (Company's employee), Sargodha. |
| Honda City LWE-5216 | 1 | 940 | 536 | 404 | 410 | 6 | Negotiation | Ms. Bushra Malik, Lahore. |
| Toyota Corolla LW-9627 | 1 | 1,022 | 604 | 418 | 424 | 6 | Negotiation | Mr. Pervaiz-ul-Islam Mir (Company's employee), Lahore. |
| Honda City LXV-9992 | 1 | 815 | 682 | 133 | 450 | 317 | Negotiation | Mr. Muhammad Alyas, Lahore. |
| Suzuki Cultus LZS-5457 | 1 | 645 | 404 | 241 | 245 | 4 | Negotiation | Syed Asif Abbas (Company's employee), Lahore. |
| Suzuki Alto LEA-07-2939 | 1 | 514 | 217 | 297 | 482 | 185 | Negotiation | Mr. Babar Ali, Lahore. |
| Honda City LZT-6622 | 1 | 891 | 574 | 317 | 319 | 2 | Negotiation | Mr. Abdul Majid Qureshi (Company's employee), Lahore. |
| Honda City LZX-4522 | 1 | 891 | 509 | 382 | 752 | 370 | Negotiation | Mr. Muhammad Asif, Lahore. |
| Suzuki Cultus LZS-3372 | 1 | 645 | 409 | 236 | 480 | 244 | Negotiation | Mr. Muhammad Majid, Lahore. |
| Toyota Corolla LZZ-3297 | 1 | 943 | 529 | 414 | 435 | 21 | Negotiation | Mr. Saad Zulfiqar (Company's employee), Lahore. |
| Honda Civic LEB-06-1311 | 1 | 1,337 | 585 | 752 | 1,200 | 448 | Insurance Claim | Security General Insurance Company Ltd. |
| Honda City LWE-6568 | 1 | 940 | 534 | 406 | 410 | 4 | Negotiation | Mr. Tahir Hussain (Company's employee), Sargodha. |
| Suzuki Alto LZU-9222 | 1 | 518 | 302 | 216 | 218 | 2 | Negotiation | Mr. Tariq Iqbal Khan (Company's employee), Lahore. |
| Suzuki Alto FDZ-3825 | 1 | 505 | 399 | 106 | 107 | 1 | Negotiation | Mr. Tahir Yaseen (Company's employee), Faisalabad. |
| Honda City LXW-6486 | 1 | 891 | 515 | 376 | 380 | 4 | Negotiation | Mr. Ejaz Hassan (Company's employee), Lahore. |
| Suzuki Baleno LRX-2376 | 1 | 797 | 574 | 223 | 520 | 297 | Negotiation | Mr. Naeem Ahmad, Lahore. |
| Suzuki Cultus FDZ-3028 | 1 | 592 | 464 | 128 | 366 | 238 | Negotiation | Mr. Muhammad Zahid, Faisalabad. |
| Suzuki Cultus LZQ-7620 | 1 | 650 | 412 | 238 | 239 | 1 | Negotiation | Mr. Waheed Ashraf (Company's employee), Lahore. |
| Honda City LZY-3522 | 1 | 891 | 507 | 384 | 388 | 4 | Negotiation | Mr. Khalid Mehmood (Company's employee), Sahiwal. |
| | | 24,126 | 13,570 | 10,556 | 14,237 | 3,681 | | |
| **Computer equipment** | | | | | | | | |
| Dell Latitude Note Book | 1 | 132 | 82 | 50 | 43 | (7) | Insurance claim | Security General Insurance Company Ltd. |
| **Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000** | | 3,836 | 3,152 | 684 | 1,299 | 615 | | |
| | | **340,265** | **224,162** | **116,103** | **145,456** | **29,353** | | |

| | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|
| **11.1.2 Depreciation charge for the year has been allocated as follows:** | | |
| Cost of sales (Note 25) | **1,075,032** | 1,058,264 |
| Distribution cost (Note 26) | **3,796** | 3,669 |
| Administrative expenses (Note 27) | **60,453** | 55,098 |
| Capital work-in-progress | **1,910** | 869 |
| | **1,141,191** | 1,117,900 |

**11.2 Capital work in progress**

| | 2010 | 2009 |
|---|---|---|
| Building on freehold land | **261,535** | 161,657 |
| Plant and machinery | **14,506,900** | 13,057,174 |
| Electric installations | **546** | 323 |
| Unallocated expenses | **7,219** | - |
| Letters of credit against machinery | **2,631** | 402 |
| Advances against furniture and office equipment | **652** | 1,738 |
| Advances against plant and machinery | **-** | 6,333 |
| Advances against vehicles | **2,647** | 2,266 |
| Advances to contractors | **-** | 257,511 |
| Unallocated capital expenditures (Note 11.2.1) | **2,166,865** | 1,493,028 |
| | **16,948,995** | 14,980,432 |
| Transfer to operating fixed assets | **(16,583,333)** | - |
| | **365,662** | 14,980,432 |

**11.2.1 Unallocated expenditures - Nishat Power Limited - Subsidiary Company**

| | 2010 | 2009 |
|---|---|---|
| Raw material consumed | **2,189,759** | - |
| Stores, spares and loose tools consumed | **1,169** | - |
| Salaries and other benefits (Note 11.2.2) | **42,982** | 22,572 |
| Electricity consumed in-house | **23,123** | - |
| Insurance | **204,282** | 150,793 |
| Traveling and conveyance | **12,213** | 6,417 |
| Rent, rates and taxes | **1,415** | 967 |
| Postage and telephone | **1,370** | 1,070 |
| Legal and professional charges | **7,191** | 4,271 |
| Consultancy charges | **18,429** | 11,026 |
| Fee and subscription | **45,381** | 17,019 |
| Mark-up on | | |
| Long term financing - secured | **3,041,941** | 1,152,839 |
| Short term borrowings - secured | **108,817** | - |
| Bank charges and financing fee | **169,502** | 114,345 |
| Bank guarantee commission | **10,092** | 8,674 |
| Depreciation | **2,741** | 992 |
| Miscellaneous | **4,566** | 2,043 |
| | **5,884,973** | 1,493,028 |
| Delay liquidity damages recovered (Note 11.2.3) | **(1,461,648)** | - |
| Sale of trial production | **(2,256,460)** | - |
| | **2,166,865** | 1,493,028 |

**11.2.2** Salaries and other benefits include Rupees 760,568 (2009: Rupees 536,719) in respect of provident fund contribution by Nishat Power Limited - Subsidiary Company.

**11.2.3** This represents net liquidated damages received by Nishat Power Limited - Subsidiary Company from Wartsila Pakistan (Private) Limited for delay in achieving commercial operations.

## 12. INVESTMENT PROPERTIES

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | | Book Value |
| | As at 01 July 2009 | Transfer from operating assets | As at 30 June 2010 | As at 01 July 2009 | Transfer from operating assets | For the year | As at 30 June 2010 | As at 30 June 2010 |
| | (RUPEES IN THOUSAND) | | | | | | | |
| Land | **18,756** | **56,632** | **75,388** | **-** | **-** | **-** | **-** | **75,388** |
| Buildings | **46,090** | **46,048** | **92,138** | **23,797** | **4,827** | **6,352** | **34,976** | **57,162** |
| | **64,846** | **102,680** | **167,526** | **23,797** | **4,827** | **6,352** | **34,976** | **132,550** |

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | | Book Value |
| | As at 01 July 2008 | Transfer from operating assets | As at 30 June 2009 | As at 01 July 2008 | Transfer from operating assets | For the year | As at 30 June 2009 | As at 30 June 2009 |
| | (RUPEES IN THOUSAND) | | | | | | | |
| Land | - | 18,756 | 18,756 | - | - | - | - | 18,756 |
| Buildings | - | 46,090 | 46,090 | - | 21,209 | 2,588 | 23,797 | 22,293 |
| | - | 64,846 | 64,846 | - | 21,209 | 2,588 | 23,797 | 41,049 |

**12.1** Depreciation at the rate of 10 percent per annum on buildings amounting to Rupees 6.352 million (2009: Rupees 2.588 million) charged during the year is allocated to other operating expenses. No expenses directly related to investment properties were incurred during the year. The market value of land and buildings is estimated at Rupees 346.215 million (2009: Rupees 188.557 million). The valuation has been carried out by an independent valuer.

| | | (RUPEES IN THOUSAND) | |
|---|---|---|---|
| | | **2010** | 2009 |
| **13.** | **LONG TERM INVESTMENTS** | | |
| | **Associated companies (with significant influence) - under equity method** | | |
| | D.G. Khan Cement Company Limited - quoted<br>114,645,168 (2009: 95,537,640) fully paid ordinary shares of Rupees 10 each. Equity held 31.40% (2009: 31.40%) | **9,017,542** | 7,346,919 |
| | MCB Bank Limited - quoted<br>52,591,266 (2009: 47,810,242) fully paid ordinary shares of Rupees 10 each. Equity held 6.92% (2009: 6.92%) | **8,718,007** | 8,130,399 |
| | AES Lal Pir (Private) Limited - unquoted<br>110,498,540 (2009: Nil) fully paid ordinary shares of Rupees 10 each. Equity held 32% (2009: Nil) | **3,803,198** | - |
| | AES Pak Gen (Private) Company - unquoted<br>119,066,110 (2009: Nil) fully paid ordinary shares of Rupees 10 each. Equity held 32% (2009: Nil) | **4,255,502** | - |
| | Nishat Paper Products Company Limited - unquoted<br>11,634,199 (2009:11,634,199) fully paid ordinary shares of Rupees 10 each. Equity held 25% (2009: 25 %) | **94,892** | 66,733 |
| | | **25,889,141** | 15,544,051 |
| | **Available for Sales** | | |
| | **Associated companies (Others)** | | |
| | Adamjee Insurance Company Limited - quoted<br>36,337 (2009: 30,034) fully paid ordinary shares of Rupees 10 each.<br>Equity held 0.03% (2009: 0.03%) (Note 13.2) | **2,774** | 3,725 |
| | **Other** | | |
| | Habib Bank Limited - quoted<br>145 (2009: 132) fully paid ordinary shares of Rupees 10 each | **12** | 24 |
| | | **2,786** | 3,749 |
| | Less: Impairment loss recognized (Note 28) | **-** | (963) |
| | Add: Fair value adjustment | **131** | - |
| | | **2,917** | 2,786 |
| | | **25,892,058** | 15,546,837 |

## 13.1 Reconciliation of investments in associated companies under equity method:

| | D. G. Khan Cement Company Limited | | Nishat Paper Products Company Limited | | MCB Bank Limited | | AES - LAL PIR (PRIVATE) LIMITED | | AES PAK GEN (PRIVATE) COMPANY | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ------ RUPEES IN THOUSAND ------ | | | | | | | | | | | |
| **Cost** | **2,959,565** | 2,577,414 | **116,342** | 116,342 | **7,955,322** | 7,955,321 | **1,648,444** | - | **1,651,635** | - | **14,331,308** | 10,649,077 |
| **Share of post acquisition reserves:** | | | | | | | | | | | | |
| As at 01 July | **4,769,505** | 7,874,006 | **(49,609)** | (38,424) | **175,078** | - | **-** | - | **-** | - | **4,894,974** | 7,835,582 |
| Share of profit / (loss) after income tax (Note 13.1.2) | **(14,865)** | 255,350 | **28,159** | (11,185) | **1,085,128** | 250,609 | **2,154,754** | - | **2,603,867** | - | **5,857,043** | 494,774 |
| Share of other comprehensive income / (loss) | **1,303,337** | (3,359,851) | **-** | - | **40,344** | 43,995 | **-** | - | **-** | - | **1,343,681** | (3,315,856) |
| Dividend received | **-** | - | **-** | - | **(537,865)** | (119,526) | **-** | - | **-** | - | **(537,865)** | (119,526) |
| As at 30 June | **1,288,472** | (3,104,501) | **28,159** | (11,185) | **587,607** | 175,078 | **2,154,754** | - | **2,603,867** | - | **6,662,859** | (2,940,608) |
| | **6,057,977** | 4,769,505 | **(21,450)** | (49,609) | **762,685** | 175,078 | **2,154,754** | - | **2,603,867** | - | **11,557,833** | 4,894,974 |
| As at 30 June | **9,017,542** | 7,346,919 | **94,892** | 66,733 | **8,718,007** | 8,130,399 | **3,803,198** | - | **4,255,502** | - | **25,889,141** | 15,544,051 |

**13.1.1** Share of profit / (loss) after tax and share of other comprehensive income from associated companies amounting to Rupees 5,857.043 million and Rupees 1,343.683 million (2009: Rupees 494.774 million and Rupees 3,316 million) respectively is based on unaudited financial statements of associated companies.

**13.1.2** This includes negative goodwill on acquisition of shares of AES Pak Gen (Private) Company and AES Lal Pir (Private) Limited of Rupees 2,575.492 million and Rupees 2,125.288 million respectively.

**13.1.3** Aggregate market value of investment in D. G. Khan Cement Company Limited and MCB Bank Limited - quoted associated companies as on 30 June 2010 were Rupees 2,708 million and Rupees 10,213 million (2009: Rupees 2,833 million and Rupees 7,412 million) respectively.

**13.1.4** Summarized financial information of associated companies:

| Name of associated company | Annual / Quarterly | Audited/ Un-audited | Assets | Liabilities | Net assets | Revenues | Profit / (loss) |
|---|---|---|---|---|---|---|---|
| | | ------ RUPEES IN THOUSAND ------ | | | | | |
| **30 June 2010** | | | | | | | |
| D. G. Khan Cement Company Limited | Annual | Un-audited | 47,271,798 | 20,500,883 | 26,770,915 | 16,303,074 | 484,662 |
| Nishat Paper Products Company Limited | Annual | Un-audited | 1,741,198 | 1,362,387 | 378,811 | 1,712,229 | 123,910 |
| MCB Bank Limited | Half yearly | Un-audited | 532,101,944 | 458,826,963 | 73,274,981 | 26,395,968 | 7,942,235 |
| AES Lal Pir (Private) Limited | Half yearly | Un-audited | 18,474,349 | 6,589,354 | 11,884,995 | 15,327,250 | 833,349 |
| AES Pak Gen (Private) Company | Half yearly | Un-audited | 17,870,516 | 4,572,071 | 13,298,445 | 13,893,614 | 802,496 |
| **30 June 2009** | | | | | | | |
| D.G Khan Cement Company Limited | Annual | Un-audited | 43,343,264 | 21,892,767 | 21,450,497 | 18,132,841 | 1,057,635 |
| Nishat Paper Products Company Limited | Annual | Un-audited | 1,374,393 | 1,108,216 | 266,177 | 1,255,199 | (45,038) |
| MCB Bank Limited | Quarterly | Un-audited | 467,682,438 | 402,896,525 | 64,785,913 | 8,990,208 | 3,621,518 |

**13.2** Adamjee Insurance Company Limited is associated company due to common directorship.

**13.3** Based on value in use calculations as at 30 June 2010, there was no impairment loss on other investments in associates with significant influence (tested for impairment under IAS 36 'Impairment of Assets').

| | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **14.** | **LONG TERM LOANS** | | |
| | Considered good: | | |
| | Executives - secured (Note 14.1) | **26,819** | 11,688 |
| | Other employees - secured | **14,213** | 9,774 |
| | | **41,032** | 21,462 |
| | Less: Current portion shown under current assets (Note 19) | | |
| | Executives | **8,522** | 5,339 |
| | Other employees | **6,592** | 3,756 |
| | | **15,114** | 9,095 |
| | | **25,918** | 12,367 |

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

| | 2010 | 2009 |
|---|---|---|
| Opening balance as at 01 July | **11,688** | 8,391 |
| Add: Disbursements | **23,342** | 10,667 |
| | **35,030** | 19,058 |
| Less: Repayments | **8,211** | 7,370 |
| Closing balance as at 30 June | **26,819** | 11,688 |

**14.1.1** Maximum aggregate balance due from executives at the end of any month during the year was Rupees 27.259 million (2009: Rupees 11.688 million).

**14.2** These represent interest free house construction loans given to executives and employees of Nishat Mills Limited - Holding Company and are secured against balance to the credit of employee in the provident fund trust. These are recoverable in equal monthly installments.

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **15. LONG TERM DEPOSITS AND PREPAYMENTS** | | |
| Security deposits | **14,666** | 11,957 |
| Margin against bank guarantees | **2,500** | - |
| Prepayments | **-** | 1,086 |
| | **17,166** | 13,043 |
| Less: Current portion shown under current assets (Note 20) | **-** | 869 |
| | **17,166** | 12,174 |

| | 2010 | 2009 |
|---|---|---|
| **16. STORES, SPARE PARTS AND LOOSE TOOLS** | | |
| Stores (Note 16.1) | **474,508** | 385,406 |
| Spare parts (Note 16.2) | **455,545** | 175,309 |
| Loose tools | **1,320** | 536 |
| | **931,373** | 561,251 |
| Less: Provision for slow moving items | **27,057** | - |
| | **904,316** | 561,251 |

**16.1** This includes stores in transit of Rupees 53.009 million (2009: Rupees 37.106 million).

**16.2** This includes spare in transit of Rupees 3.685 million (2009: Rupees Nil).

**16.3** Stores and spare parts includes items which may result in fixed capital expenditure but are not distinguishable.

| | 2010 | 2009 |
|---|---|---|
| **17. STOCK IN TRADE** | | |
| Raw materials | **1,950,146** | 1,398,784 |
| Work in process (Note 17.1) | **2,921,946** | 1,529,335 |
| Finished goods (Note 17.1 and 17.2) | **1,545,610** | 1,164,522 |
| | **6,417,702** | 4,092,641 |
| Less: Provision for slow moving items | **2,783** | - |
| | **6,414,919** | 4,092,641 |

**17.1** Finished goods and work-in-process include inventory of Rupees 214.263 million (2009: Rupees 125.657 million) are being carried at net realizable value.

**17.2** Finished goods include stock in transit of Rupees 188.010 million (2009: Rupees 118.559 million).

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **18. TRADE DEBTS** | | |
| **Considered good:** | | |
| Secured (Note 18.3) | **3,539,814** | 393,871 |
| Unsecured | **1,170,039** | 906,495 |
| | **4,709,853** | 1,300,366 |
| **Considered doubtful:** | | |
| Others - unsecured | **119,460** | 107,460 |
| Less: Provision for doubtful debts | | |
| As at 01 July | **107,460** | 27,000 |
| Add: Provision for the year (Note 28) | **12,000** | 80,460 |
| As at 30 June | **119,460** | 107,460 |
| | **-** | - |

**18.1** As at 30 June 2010, trade debts of Rupees 339.902 million (2009: Rupees 221.907 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

| | | |
|---|---|---|
| Upto 1 month | **270,933** | 111,446 |
| 1 to 6 months | **68,556** | 80,044 |
| More than 6 months | **413** | 30,417 |
| | **339,902** | 221,907 |

**18.2** As at 30 June 2010, trade debts of Rupees 119.460 million (2009: Rupees 107.460 million) were impaired and provided for. The ageing of these trade debts was more than six months.

**18.3** Trade debts of Subsidiary Company (Nishat Power Limited) are receivables from National Transmission and Despatch Company Limited and are considered good. These are secured by a guarantee from the Government of Pakistan under the Implementation Agreement and are in the normal course of business and interest free, however, a penal markup at the rate of 3 months KIBOR plus 4.5% is charged in case the amounts are not paid within due dates. The effective rate of penal mark up charged during the year on outstanding amounts ranges from 16.68% to 17.32%.per annum.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **19. LOANS AND ADVANCES** | | |
| **Considered good:** | | |
| Employees - interest free: | | |
| – Executives | **1,579** | 492 |
| – Other employees | **4,587** | 3,365 |
| | **6,166** | 3,857 |
| Current portion of long term loans (Note 14) | **15,114** | 9,095 |
| Advances to suppliers | **721,396** | 70,848 |
| Letters of credit | **888** | 1,369 |
| Income tax | **374,261** | 307,329 |
| Other advances | **27,127** | 69,758 |
| | **1,144,952** | 462,256 |
| **Considered doubtful:** | | |
| Others | **108** | 108 |
| Less: Provision for doubtful debts | **108** | 108 |
| | **-** | - |
| | **1,144,952** | 462,256 |
| **20. SHORT TERM DEPOSITS AND PREPAYMENTS** | | |
| Deposits | **26,148** | 25,083 |
| Prepayments - including current portion (Note 15) | **6,282** | 5,408 |
| | **32,430** | 30,491 |
| **21. OTHER RECEIVABLES** | | |
| **Considered good:** | | |
| Export rebate and claims | **263,380** | 123,674 |
| Sales tax refundable | **382,280** | 182,257 |
| Fair value of forward exchange contract | **101,809** | - |
| Markup rate support receivable from financial institutions | **34,764** | - |
| WPPF and WWF receivable (Note 21.1) | **5,054** | - |
| Miscellaneous receivables | **52,277** | 25,324 |
| | **839,564** | 331,255 |

**21.1** Under section 9.3(a) of the Power Purchase Agreement (PPA) between Nishat Power Limited - Subsidiary Company and National Transmission and Despatch Company Limited, payments to Workers' Profit Participation Fund and Workers' Welfare Fund are recoverable from NTDCL as a pass through item.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 22. SHORT TERM INVESTMENTS

| | 2010 | 2009 |
|---|---|---|
| **Available for sale** | | |
| **Associated company** | | |
| Security General Insurance Company Limited - unquoted (Note 22.1) 10,226,244 (2009: 10,226,244) fully paid ordinary shares of Rupees 10 each. Equity held 15.02 % (2009: 15.02%) | **11,188** | 11,188 |
| **Others** | | |
| Nishat (Chunian) Limited - quoted (Note 22.2) 22,513,321 (2009: 11,256,661) fully paid ordinary shares of Rupees 10 each. Equity held 14.20% (2009: 13.61 %) | **242,750** | 109,931 |
| Nil (2009: 5,628,330) fully paid non voting convertible cumulative preferred shares of Rupees 10 each. Extent of investment held Nil (2009: 13.61%) | **-** | 56,283 |
| Pakistan Strategic Allocation Fund - quoted 500,000 (2009: 500,000) fully paid certificates of Rupees 10 each | **1,715** | 5,000 |
| | **255,653** | 182,402 |
| Less: Impairment loss recognised (Note 28) | **-** | (16,296) |
| Add: Fair value adjustment | **1,298,890** | 950,079 |
| | **1,554,543** | 1,116,185 |

**22.1** Fair value per share of Rupees 116.94 (2009: Rupees 94) is calculated by independent valuer on the basis of dividend stream method. Security General Insurance Company Limited is associated company due to common directorship.

**22.2** During the year, the Holding Company- Nishat Mills Limited has opted for conversion of 5,628,330 fully paid non-voting convertible cumulative preferred shares of Rupees 10 each into equivalent number of fully paid ordinary shares of Rupees 10 each of Nishat (Chunian) Limited.

## 23. CASH AND BANK BALANCES

| | 2010 | 2009 |
|---|---|---|
| **With banks:** | | |
| On PLS saving accounts (Note 23.1) Including US$ 99,416.32 (2009: US$ 129,345) | **1,782,567** | 28,905 |
| On current accounts (Note 23.2) Including US$ 222,929 (2009: US$ 161,536) and Euro 980.1 (2009: Euro 980.1) | **94,519** | 135,933 |
| | **1,877,086** | 164,838 |
| **Cash in hand** | **9,240** | 6,026 |
| | **1,886,326** | 170,864 |

**23.1** Rate of profit on bank deposits ranges from 4.50% to 12.00% (2009: 0.24% to 10.00%) per annum. Cash at bank includes balance of Rupees 0.02 million (2009: Rupees 6.508 million) with MCB Bank Limited - an associated company.

**23.2** Cash at bank includes balance of Rupees 13.640 million (2009: Rupees 50.122 million) with MCB Bank Limited - Associated Company.

## 24. SALES

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Export (Note 24.3) | **23,928,427** | 18,634,158 |
| Local (Note 24.1) | **8,330,605** | 5,156,436 |
| Duty drawback | **189,865** | - |
| Export rebate | **105,115** | 79,785 |
| | **32,554,012** | 23,870,379 |

### 24.1 Local sales

| | 2010 | 2009 |
|---|---|---|
| Sales (Note 24.2 and Note 24.4) | **8,440,195** | 5,143,840 |
| Less: Sales tax | **175,119** | 41,656 |
| | **8,265,076** | 5,102,184 |
| Processing income | **64,340** | 51,496 |
| Doubling income | **1,189** | 2,756 |
| | **8,330,605** | 5,156,436 |

**24.2** This includes sale of Rupees 1,323.913 million (2009: Rupees 456.841 million) made to direct exporters against special purchase order (SPO). Further, local sales includes waste sale of Rupees 668.292 million(2009: Rupees 652.248 million).

**24.3** Exchange gain due to currency rate fluctuations relating to export sales amounting to Rupees 130.182 million (2009: Rupees 167.095 million) has been included in export sales.

**24.4** This includes sales recognized by Nishat Power Limited - Subsidiary Company on the basis of reference tariff approved by National Electric Power Regulatory Authority ("NEPRA"), which was notified by the Federal Government as required by section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 and was made part of the PPA. The Subsidiary Company's management had applied for the revision in tariff, which has been provisionally approved by NEPRA through its decision dated 27 August 2010 and is subject to notification by the Federal Government. Consequently, it has not become part of the PPA signed between the Subsidiary Company and NTDCL. Under these circumstances, the differential amount of sales due to change in tariff would be claimed and recognized in the subsequent period.

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **25. COST OF SALES** | | |
| Raw material consumed | **7,937,614** | 5,919,709 |
| Cloth and yarn purchased / used | **10,786,734** | 5,820,051 |
| Processing charges | **125,041** | 79,104 |
| Salaries, wages and other benefits (Note 25.2) | **1,929,103** | 1,730,455 |
| Stores, spare parts and loose tools consumed | **2,840,555** | 2,184,346 |
| Packing materials consumed | **548,786** | 451,611 |
| Repair and maintenance | **311,035** | 166,351 |
| Fuel and power | **2,324,652** | 2,149,417 |
| Insurance | **36,238** | 27,632 |
| Other factory overheads | **209,808** | 263,387 |
| Depreciation (Note 11.1.2) | **1,075,032** | 1,058,264 |
| | **28,124,598** | 19,850,327 |
| Work-in-process | | |
| Opening stock | **1,529,335** | 1,207,658 |
| Closing stock | **(2,921,946)** | (1,529,335) |
| | **(1,392,611)** | (321,677) |
| Cost of goods manufactured | **26,731,987** | 19,528,650 |
| Finished goods | | |
| Opening stock | **1,164,522** | 1,154,710 |
| Closing stock | **(1,545,610)** | (1,164,522) |
| | **(381,088)** | (9,812) |
| | **26,350,899** | 19,518,838 |

**25.1 Raw material consumed**

| | 2010 | 2009 |
|---|---|---|
| Opening stock | **1,398,784** | 1,800,826 |
| Add: Purchased during the year | **8,488,976** | 5,517,667 |
| | **9,887,760** | 7,318,493 |
| Less: Closing stock | **1,950,146** | 1,398,784 |
| | **7,937,614** | 5,919,709 |

**25.2** Salaries, wages and other benefits include provident fund contribution of Rupees 52.186 million (2009: Rupees 47.918 million).

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|

## 26. DISTRIBUTION COST

| | 2010 | 2009 |
|---|---|---|
| Salaries and other benefits (Note 26.1) | **132,312** | 99,156 |
| Outward freight and handling | **886,209** | 718,660 |
| Commission to selling agents | **476,818** | 346,630 |
| Rent, rates and taxes | **14,241** | 5,768 |
| Insurance | **10,780** | 8,181 |
| Traveling and conveyance | **64,104** | 46,027 |
| Vehicles' running | **7,001** | 5,883 |
| Entertainment | **2,307** | 2,570 |
| Advertisement | **45,366** | 17,077 |
| Postage, telephone and telegram | **57,356** | 52,902 |
| Electricity and gas | **3,083** | 3,457 |
| Printing and stationery | **1,711** | 2,308 |
| Repair and maintenance | **9,357** | 3,134 |
| Fee and subscription | **130** | 39 |
| Depreciation (Note 11.1.2) | **3,796** | 3,669 |
| | **1,714,571** | 1,315,461 |

**26.1** Salaries and other benefits include provident fund contribution of Rupees 5.616 million (2009: Rupees 4.548 million).

## 27. ADMINISTRATIVE EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Salaries and other benefits (Note 27.1) | **346,785** | 263,419 |
| Rent, rates and taxes | **5,269** | 7,532 |
| Legal and professional | **12,185** | 10,634 |
| Insurance | **4,190** | 4,412 |
| Traveling and conveyance | **21,111** | 19,383 |
| Vehicles' running | **24,076** | 20,620 |
| Entertainment | **10,879** | 7,446 |
| Auditors' remuneration (Note 27.2) | **4,430** | 2,699 |
| Advertisement | **638** | 28 |
| Postage, telephone and telegram | **6,117** | 5,544 |
| Electricity and gas | **14,519** | 8,074 |
| Printing and stationery | **12,047** | 13,215 |
| Repair and maintenance | **11,976** | 9,166 |
| Fee and subscription | **7,219** | 5,257 |
| Depreciation (Note 11.1.2) | **60,453** | 55,098 |
| Miscellaneous | **20,277** | 8,426 |
| | **562,171** | 440,953 |

**27.1** Salaries and other benefits include provident fund contribution of Rupees 13.515 million (2009: Rupees 10.077 million).

| | | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **27.2** | **Auditors' remuneration** | | |
| | **Riaz Ahmad and Company** | | |
| | Audit fee | **1,822** | 1,656 |
| | Half yearly review | **381** | 347 |
| | Reimbursable expenses | **72** | 53 |
| | | **2,275** | 2,056 |
| | **A.F. Ferguson and Company** | | |
| | Statutory audit fee | **700** | 300 |
| | Special audit fee | **-** | 250 |
| | Half yearly review | **250** | - |
| | Tax services | **300** | 51 |
| | Other certification services | **905** | 42 |
| | | **2,155** | 643 |
| | | **4,430** | 2,699 |

## 28. OTHER OPERATING EXPENSES

| | 2010 | 2009 |
|---|---|---|
| Workers' profit participation fund | **173,101** | 82,641 |
| Workers' welfare fund | **67,063** | 5,886 |
| Provision for doubtful debts (Note 18) | **12,000** | 80,460 |
| Impairment loss on equity investments | **-** | 17,259 |
| Depreciation on investment properties | **6,352** | 2,588 |
| Provision for slow moving stores, spare parts and loos tools | **27,057** | - |
| Provision for slow moving stock-in-trade | **2,783** | - |
| Donations (Note 28.1) | **724** | 2,774 |
| | **289,080** | 191,608 |

**28.1** There is no interest of any director or his spouse in donees' fund.

## 29. OTHER OPERATING INCOME

**Income from financial assets**

| | 2010 | 2009 |
|---|---|---|
| Dividend income (Note 29.1) | **20,552** | 391,807 |
| Profit on deposits with banks | **70,111** | 7,324 |
| Net exchange gain including loss on forward contracts | **166,534** | - |
| Gain on sale of investment | **33,263** | - |
| | **290,460** | 399,131 |

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| **Income from non financial assets** | | |
| Gain on sale of property, plant and equipment | **29,354** | 2,416 |
| Scrap sales | **76,203** | 64,911 |
| Rental income from investment properties | **28,428** | 16,951 |
| Exchange gain | **-** | 51,411 |
| Negative goodwill arising on acquisition of foreign subsidiary | **-** | 127 |
| | **133,985** | 135,816 |
| | **424,445** | 534,947 |

### 29.1 Dividend income

| | 2010 | 2009 |
|---|---|---|
| **From related parties / associated companies** | | |
| MCB Bank Limited | **-** | 364,035 |
| Nishat (Chunian) Limited - Preferred shares | **-** | 1,781 |
| Adamjee Insurance Company Limited | **99** | 75 |
| Security General Insurance Company Limited | **20,452** | 25,566 |
| | **20,551** | 391,457 |
| **Others** | | |
| Pakistan Strategic Allocation Fund | **-** | 350 |
| Habib Bank Limited | **1** | - |
| | **20,552** | 391,807 |

## 30. FINANCE COST

| | 2010 | 2009 |
|---|---|---|
| Mark-up on: | | |
| Long term financing | **476,574** | 253,319 |
| Short term borrowings | **656,210** | 986,878 |
| Interest on workers' profit participation fund (Note 7.3) | **1,053** | 2,787 |
| Bank charges and commission | **174,559** | 203,812 |
| | **1,308,396** | 1,446,796 |

## 31. PROVISION FOR TAXATION

| | 2010 | 2009 |
|---|---|---|
| Current - for the year (Note 31.1) | **425,631** | 295,791 |
| Prior year adjustment | **(30,000)** | 501 |
| | **395,631** | 296,292 |

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

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

**31.3** The provision for income tax of foreign subsidiary- Nishat USA Inc., is computed in accordance with the tax legislation in force in the country where the income is taxable.

## 32. CORRECTION OF PRIOR PERIOD ERRORS

During the previous year ended 30 June 2009, the Subsidiary Company incorrectly recognized certain foreign currency costs of commissioning of the power station as part of the cost of property, plant and equipment under 'capital work-in-progress – plant and machinery' and its corresponding liability under 'trade and other payables' which should not have been recognized since such service had not been provided by the equipment supplier during the previous year. Furthermore, the Subsidiary Company also recognized exchange loss arising out of translation of the abovementioned foreign currency liability in the functional currency at the reporting date.

The recognition of such cost of Rupees 623.446 million as part of the cost of property, plant and equipment alongwith recognition of a corresponding liability and recognition of exchange loss of Rupees 47.907 million in the profit and loss account constitutes a 'prior period error' as defined in International Accounting Standard (IAS) 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Accordingly, the above mentioned prior period error has been corrected retrospectively in these Consolidated financial statements by restating the carrying value of 'property, plant and equipment' and 'trade and other payables' as at 30 June 2009 and restating 'other operating income' for the year ended 30 June 2009. Consequently, as at 30 June 2009, the carrying values of 'property, plant and equipment' and 'trade and other payables' decreased by Rupees 623.446 million and Rupees 671.352 million respectively and other operating income for the year ended 30 June 2009 increased by Rupees 47.907 million.

| | | | 2010 | 2009 Restated |
|---|---|---|---|---|
| **33.** | **EARNINGS PER SHARE - BASIC AND DILUTED** | | | |
| | There is no dilutive effect on the basic earnings per share which is based on: | | | |
| | Profit attributable to ordinary shareholders of Holding Company | (Rupees in thousands) | **8,194,245** | 1,673,900 |
| | Weighted average number of ordinary shares | (Numbers) | **277,557,804** | 203,406,045 |
| | Earnings per share | (Rupees) | **29.52** | 8.23 |

| | | (RUPEES IN THOUSAND) 2010 | 2009 Restated |
|---|---|---|---|
| **34.** | **CASH (USED IN)/GENERATED FROM OPERATIONS** | | |
| | **Profit before taxation** | **8,610,383** | 1,986,444 |
| | **Adjustments for non-cash charges and other items:** | | |
| | Depreciation | **1,145,633** | 1,119,619 |
| | Provision for doubtful debts | **12,000** | 80,460 |
| | Provision for slow moving stores, spare parts and loose tools | **27,057** | - |
| | Provision for slow moving stock-in-trade | **2,783** | - |
| | Net exchange gain including loss on forward contracts | **(166,534)** | - |
| | Gain on sale of property, plant and equipment | **(29,354)** | (2,416) |
| | Gain on sale of investment | **(33,263)** | - |
| | Dividend income | **(20,552)** | (391,807) |
| | Share of profit from associated companies | **(5,857,043)** | (494,774) |
| | Impairment loss on investments | **-** | 17,259 |
| | Finance cost | **1,308,396** | 1,446,796 |
| | Working capital changes (Note 34.1) | **(5,539,344)** | 139,893 |
| | | **(539,838)** | 3,901,474 |

**34.1 Working capital changes**

| | 2010 | 2009 Restated |
|---|---|---|
| (Increase) / decrease in current assets: | | |
| - Stores, spare parts and loose tools | **(370,122)** | (48,137) |
| - Stock in trade | **(2,325,061)** | 70,553 |
| - Trade debts | **(3,421,487)** | 6,320 |
| - Loans and advances | **(609,745)** | (46,608) |
| - Short term deposits and prepayments | **(2,808)** | 3,042 |
| - Other receivables | **(408,281)** | 49,114 |
| | **(7,137,504)** | 34,284 |
| Increase in trade and other payables | **1,598,160** | 105,609 |
| | **(5,539,344)** | 139,893 |

## 35. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Nishat Mills Limited - Holding Company has proposed a cash dividend for the year ended 30 June 2010 of Rupees 2.5 per share (2009: Rupees 2 per share) at their meeting held on September 9, 2010. The Board of Directors also proposed to transfer Rupees 7,335 million (2009: Rupees 1,350 million) from un-appropriated profit to general reserve. However, these events have been considered as non-adjusting events under IAS 10 'Events after the Reporting Period' and have not been recognized in these financial statements.

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

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

| | Chief Executive Officer | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | (RUPEES IN THOUSAND) | | | | | |
| **Managerial remuneration** | **7,557** | 6,297 | **1,997** | 2,043 | **73,710** | 53,195 |
| **Allowances** | | | | | | |
| Cost of living allowance | **-** | - | **6** | 7 | **323** | 248 |
| House rent | **3,023** | 2,519 | **764** | 775 | **24,130** | 17,092 |
| Conveyance | **-** | - | **-** | - | **126** | 84 |
| Medical | **-** | - | **199** | 205 | **5,771** | 3,627 |
| Utilities | **756** | 630 | **200** | 186 | **6,011** | 4,572 |
| Special allowance | **-** | - | **-** | 2 | **159** | 91 |
| **Contribution to provident fund** | **-** | - | **190** | 162 | **6,632** | 4,177 |
| **Leave encashment** | **-** | - | **-** | - | **1,646** | 1,559 |
| | **11,336** | 9,446 | **3,356** | 3,380 | **118,508** | 84,645 |
| **Number of persons** | **1** | 1 | **2** | 3 | **94** | 65 |

**36.1** Chief executive, three directors and certain executives of the Holding Company are provided with free maintained vehicles and certain executives are also provided with free housing facility alongwith utilities.

**36.2** Aggregate amount charged in these consolidated financial statements for fee to one director of the Holding Company was Rupees 40,000 (2009: Rupees Nil).

## 37. TRANSACTIONS WITH RELATED PARTIES

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

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **Associated companies** | | |
| Investment made | **3,682,230** | - |
| Purchase of goods and services | **31,563** | 16,174 |
| Sale of goods and services | **8,411** | 31 |
| Sale of vehicles | **1,200** | 800 |
| Purchase of vehicles | **-** | 2,129 |
| Insurance premium paid | **139,352** | 52,702 |
| Insurance claim received | **21,370** | 16,089 |
| Profit on saving accounts | **1,890** | 88 |
| Subscription paid | **713** | 375 |
| **Other related parties** | | |
| Investment made | **56,283** | - |
| Preference shares converted into ordinary shares | **89,547** | - |
| Purchase of goods and services | **172,487** | 127,669 |
| Sale of goods and services | **182,313** | 107,233 |
| Sale of property, plant and equipment | **-** | 300 |
| Group's contribution to provident fund trust | **72,113** | 63,126 |

| | | (FIGURES IN THOUSAND) 2010 | 2009 |
|---|---|---|---|
| **38. PLANT CAPACITY AND ACTUAL PRODUCTION** | | | |
| **a) Holding Company - Nishat Mills Limited** | | | |
| **Spinning** | | | |
| 100 % plant capacity converted to 20s count based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Kgs.) | **64,713** | 62,944 |
| Actual production converted to 20s count based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Kgs.) | **57,222** | 57,088 |
| **Weaving** | | | |
| 100% plant capacity at 50 picks based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Sq.Mt.) | **307,971** | 218,015 |
| Actual production converted to 50 picks based on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Sq.Mt.) | **280,160** | 203,034 |
| **Dyeing and Finishing** | | | |
| Production capacity for 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Mt.) | **48,000** | 48,000 |
| Actual production on 3 shifts per day for 1,095 shifts (2009: 1,095 shifts) | (Mt.) | **47,818** | 45,256 |
| **Power Plant** | | | |
| Generation capacity | (MWH) | **503** | 495 |
| Actual generation | (MWH) | **346** | 342 |

**Processing, Stitching and Apparel**

The plant capacity of these divisions are indeterminable due to multi product plants involving varying processes of manufacturing and run length of order lots.

| **b) Subsidiary Company - Nishat Power Limited** | | | |
|---|---|---|---|
| Installed capacity (based on 8,760 hours) | MWH | **1,711** | - |
| Actual energy delivered | MWH | **343** | - |

**38.1 REASON FOR LOW PRODUCTION**

Under utilization of available capacity by Holding Company is mainly due to normal maintenance.

The low production by Subsidiary Company is due to the reason that the power plant started operation during the year and the installed capacity has been computed on annual basis.

## 39. SEGMENT INFORMATION

| | Spinning | | Weaving | | Processing and Home Textile | | Garments | | Power Generation | | Elimination of Inter-segment transactions | | Total - Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ......(Rupees in thousand)...... | | | | | | | | | | | | | |
| Sales | **11,745,361** | 9,126,615 | **10,984,102** | 8,869,130 | **13,581,592** | 10,850,921 | **2,601,780** | 1,258,341 | **3,344,877** | 2,068,762 | **(9,703,700)** | (8,303,390) | **32,554,012** | 23,870,379 |
| Cost of sales | **(9,658,635)** | (8,243,297) | **(9,655,086)** | (7,391,660) | **(11,389,172)** | (8,859,803) | **(2,106,298)** | (1,144,588) | **(3,245,408)** | (2,182,880) | **9,703,700** | 8,303,390 | **(26,350,899)** | (19,518,838) |
| Gross profit / (loss) | **2,086,726** | 883,318 | **1,329,016** | 1,477,470 | **2,192,420** | 1,991,118 | **495,482** | 113,753 | **99,469** | (114,118) | **-** | - | **6,203,113** | 4,351,541 |
| Distribution cost | **(251,423)** | (183,629) | **(408,334)** | (322,856) | **(933,362)** | (760,061) | **(121,452)** | (48,915) | **-** | - | **-** | - | **(1,714,571)** | (1,315,461) |
| Administrative expenses | **(154,638)** | (128,167) | **(136,319)** | (95,247) | **(195,129)** | (159,509) | **(43,074)** | (40,392) | **(33,010)** | (17,638) | **-** | - | **(562,170)** | (440,953) |
| | **(406,061)** | (311,796) | **(544,653)** | (418,103) | **(1,128,491)** | (919,570) | **(164,526)** | (89,307) | **(33,010)** | (17,638) | **-** | - | **(2,276,741)** | (1,756,414) |
| Profit / (loss) before taxation and unallocated income and expenses | **1,680,665** | 571,522 | **784,363** | 1,059,367 | **1,063,929** | 1,071,548 | **330,956** | 24,446 | **66,459** | (131,756) | **-** | - | **3,926,372** | 2,595,127 |
| Unallocated income and expenses | | | | | | | | | | | | | | |
| Other operating expenses | | | | | | | | | | | | | **(289,080)** | (191,608) |
| Other operating income | | | | | | | | | | | | | **424,445** | 534,947 |
| Finance cost | | | | | | | | | | | | | **(1,308,396)** | (1,446,796) |
| Share of profit / (loss) in associated companies | | | | | | | | | | | | | **5,857,043** | 494,774 |
| Provision for taxation | | | | | | | | | | | | | **(395,631)** | (296,292) |
| Profit after taxation | | | | | | | | | | | | | **8,214,753** | 1,690,152 |

### 39.1 Reconciliation of reportable segment assets and liabilities

| | Spinning | | Weaving | | Processing and Home Textile | | Garments | | Power Generation | | Total - Company | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ......(Rupees in thousand)...... | | | | | | | | | | | |
| **Total assets for reportable segments** | **6,184,668** | 5,215,320 | **3,635,533** | 3,026,856 | **7,360,584** | 5,982,593 | **1,763,519** | 1,321,718 | **22,361,278** | 16,742,905 | **41,305,582** | 32,289,392 |
| **Unallocated assets:** | | | | | | | | | | | | |
| Long term investments | | | | | | | | | | | **25,892,058** | 15,546,837 |
| Other receivables | | | | | | | | | | | **839,564** | 331,255 |
| Cash and bank balances | | | | | | | | | | | **1,886,326** | 170,864 |
| Other corporate assets | | | | | | | | | | | **2,104,939** | 1,509,531 |
| Total assets as per balance sheet | | | | | | | | | | | **72,028,469** | 49,847,879 |
| **Total liabilities for reportable segments** | **494,758** | 196,262 | **289,050** | 157,903 | **729,316** | 369,562 | **263,311** | 132,554 | **19,093,467** | 12,289,547 | **20,869,902** | 13,145,828 |
| **Unallocated liabilities:** | | | | | | | | | | | | |
| Deferred tax | | | | | | | | | | | **310,976** | 249,396 |
| Provision for taxation | | | | | | | | | | | **438,248** | 315,918 |
| Other corporate liabilities | | | | | | | | | | | **10,571,069** | 10,571,642 |
| Total liabilities as per balance sheet | | | | | | | | | | | **32,190,195** | 24,282,784 |

## 39.2 Geographical information

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

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| Europe | **8,759,128** | 7,051,422 |
| Asia, Africa and Australia | **11,803,566** | 9,723,826 |
| United States of America and Canada | **3,660,713** | 1,938,695 |
| Pakistan | **8,330,605** | 5,156,436 |
| | **32,554,012** | 23,870,379 |

**39.3** Almost all of the non-current assets of the Group as at reporting dates are located and operating in Pakistan.

## 39.4 Revenue from major customers

Nishat Power Limited - Subsidiary Company sells electricity only to NTDCL whereas the Group's revenue from other segments is earned from a large mix of customers.

# 40. FINANCIAL RISK MANAGEMENT

## 40.1 Financial risk factors

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

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

### (a) Market risk

#### (i) Currency risk

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

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

| | 2010 | 2009 Restated |
|---|---|---|
| Cash at banks - USD | **322,345** | 290,881 |
| Cash at banks - Euro | **980** | 980 |
| Trade debts - USD | **16,629,464** | 10,091,716 |
| Trade debts - Euro | **1,883,128** | 1,549,868 |
| Other assets - USD | **5,500** | 5,500 |
| Trade and other payables - USD | **3,300,031** | 1,347,861 |
| Trade and other payables - Euro | **6,063,310** | 40,300 |
| Net exposure - USD | **13,657,278** | 9,040,236 |
| Net exposure - Euro | **(4,179,202)** | 1,510,548 |

The following significant exchange rates were applied during the year:

| | | |
|---|---|---|
| **Rupees per US Dollar** | | |
| Average rate | **84.27** | 79.09 |
| Reporting date rate | **85.60** | 81.47 |
| **Rupees per Euro** | | |
| Average rate | **116.35** | 108.05 |
| Reporting date rate | **104.50** | 115.24 |

**Sensitivity analysis**

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD and Euro with all other variables held constant, the impact on profit after taxation for the year would have been higher / lower by Rupees 53.445 million and lower or higher by Rupees 22.573 million (2009: Rupees 33.887 million and Rupees 7.990 million) respectively, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

**(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 instruments traded in the market. The Group is not exposed to commodity price risk.

**Sensitivity analysis**

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on Group's profit after taxation for the year and on other comprehensive income (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

| Index | Impact on profit after taxation | | Impact on statement of other comprehensive income | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | .................... (Rupees in thousand) .................... | | | |
| KSE 100 (5% increase) | **-** | - | **18,081** | 7,885 |
| KSE 100 (5% decrease) | **(17)** | 7,333 | **18,064** | - |

Equity (fair value reserve) would increase / decrease as a result of gains / losses on equity investments classified as available for sale.

**(iii) Interest rate risk**

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

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

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

| | (RUPEES IN THOUSAND) | |
|---|---|---|
| | **2010** | 2009 |
| **Fixed rate instruments** | | |
| **Financial liabilities** | | |
| Long term financing | **1,935,166** | 1,692,724 |
| **Floating rate instruments** | | |
| **Financial assets** | | |
| Bank balances- saving accounts | **1,782,567** | 28,905 |
| Trade debts - overdue | **68,611** | - |
| **Financial liabilities** | | |
| Long term financing | **16,337,701** | 12,724,986 |
| Short term borrowings | **9,441,973** | 7,342,600 |

**Fair value sensitivity analysis for fixed rate instruments**

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

**Cash flow sensitivity analysis for variable rate instruments**

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 250.865 million (2009: Rupees 78.185 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amount of liabilities outstanding at balance sheet date were outstanding for the whole year.

**(b) Credit risk**

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

| | (RUPEES IN THOUSAND) 2010 | 2009 |
|---|---|---|
| Investments | **1,557,459** | 1,118,971 |
| Loans and advances | **74,325** | 95,077 |
| Deposits | **43,314** | 37,040 |
| Trade debts | **4,709,853** | 1,300,366 |
| Other receivables | **159,140** | 25,324 |
| Bank balances | **1,877,086** | 164,838 |
| | **8,421,177** | 2,741,616 |

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

| | Rating | | | 2010 | 2009 |
|---|---|---|---|---|---|
| | Short Term | Long Term | Agency | (Rupees in thousand) | |
| **Banks** | | | | | |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | **1,488** | 2,030 |
| Allied Bank Limited | A1+ | AA | PACRA | **3,606** | 6,511 |
| Askari Bank Limited | A1+ | AA | PACRA | **794** | 211 |
| Bank Alfalah Limited | A1+ | AA | PACRA | **9,317** | 2,825 |
| Faysal Bank Limited | A-1+ | AA | JCR-VIS | **7,208** | 618 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | **1,781,100** | 51,423 |
| Habib Metropolitan Bank Limited | A1+ | AA+ | PACRA | **204** | 38 |
| JS Bank Limited | A1 | A | PACRA | **10** | 9,168 |
| KASB Bank Limited | A2 | A - | PACRA | **160** | 77 |
| MCB Bank Limited | A1+ | AA+ | PACRA | **13,660** | 56,704 |
| NIB Bank Limited | A1+ | AA - | PACRA | **214** | 204 |
| The Royal Bank of Scotland Limited | A1+ | AA | PACRA | **38** | 140 |
| Samba Bank Limited | A-1 | A | JCR-VIS | **128** | 5 |
| Silkbank Limited | A-3 | A - | JCR-VIS | **15,752** | 47 |
| Standard Chartered Bank (Pakistan) Limited | A1+ | AAA | PACRA | **2,078** | 12,589 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | **115** | 110 |
| Al-Baraka Islamic Bank | A-1 | A | JCR-VIS | **401** | 225 |
| Citibank N.A. | P-1 | A1 | Moody's | **33,107** | 12,618 |
| Deutsche Bank AG | P-1 | Aa3 | Moody's | **337** | 5 |
| HSBC Bank Middle East Limited | F1+ | AA - | Fitch | **107** | 4,214 |
| Bank Islami Pakistan Limited | A1 | A | PACRA | **45** | 2,605 |
| Meezan Bank Limited | A-1 | AA - | JCR-VIS | **6,151** | 1,292 |
| JP Morgan Chase Bank | P-1 | Aa1 | Moody's | **1,066** | 1,179 |
| | | | | **1,877,086** | 164,838 |
| **Investments** | | | | | |
| Adamjee Insurance Company Limited | AA | | PACRA | **2,903** | 2,775 |
| Security General Insurance Company Limited | A | | JCR-VIS | **1,195,857** | 961,267 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | **14** | 11 |
| Pakistan Strategic Allocation Fund | 4 Star | | PACRA | **3,425** | 1,715 |
| | | | | **1,202,199** | 965,768 |
| | | | | **3,079,285** | 1,130,606 |

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

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

**(c) Liquidity risk**

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

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At 30 June 2010, the Group had Rupees 13,701 million available borrowing / financing limits from financial institutions and Rupees 1,886.326 million cash and bank balances. Management believes the liquidity risk to be low.

Following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are undiscounted cash flows.

Contractual maturities of financial liabilities as at 30 June 2010:

| | Carrying amount | Contractual cash flows | 6 month or less | 6-12 month | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ---------------------------- | (Rupees in thousand) | ----------------------------- | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Long term financing | **18,272,867** | **33,373,859** | **1,823,711** | **1,991,015** | **3,899,762** | **25,659,371** |
| Trade and other payables | **2,544,926** | **2,544,926** | **2,544,926** | **-** | **-** | **-** |
| Short term borrowings | **9,441,973** | **9,863,017** | **9,504,751** | **358,266** | **-** | **-** |
| Accrued mark-up | **816,436** | **816,436** | **816,436** | **-** | **-** | **-** |
| | **31,076,202** | **46,598,238** | **14,689,824** | **2,349,281** | **3,899,762** | **25,659,371** |

Contractual maturities of financial liabilities as at 30 June 2009:

| | Carrying amount | Contractual cash flows | 6 month or less | 6-12 month | 1-2 Year | More than 2 Years |
|---|---|---|---|---|---|---|
| | ---------------------------- | (Rupees in thousand) | ----------------------------- | | | |
| **Non-derivative financial liabilities:** | | | | | | |
| Long term financing | 14,417,710 | 27,633,282 | 1,070,748 | 1,712,947 | 4,691,701 | 20,157,886 |
| Trade and other payables | 1,135,361 | 1,135,361 | 1,135,361 | - | - | - |
| Short term borrowings | 7,342,600 | 7,778,131 | 6,951,624 | 826,507 | - | - |
| Accrued mark-up | 638,872 | 638,872 | 638,872 | - | - | - |
| | 23,534,543 | 37,185,646 | 9,796,605 | 2,539,454 | 4,691,701 | 20,157,886 |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / markup rates effective as at 30 June. The rates of interest / markup have been disclosed in note 5 and note 9 to these consolidated financial statements.

### 40.2 Fair values of financial assets and liabilities

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | -----------------(Rupees in thousand)--------------- | | | |
| **As at 30 June 2010** | | | | |
| **Assets** | | | | |
| Available for sale financial assets | 361,602 | - | 1,195,857 | 1,557,459 |
| **As at 30 June 2009** | | | | |
| **Assets** | | | | |
| Available for sale financial assets | 157,704 | - | 961,267 | 1,118,971 |

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

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

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 40.3 Financial instruments by categories

| | Loans and receivables | Available for sale | Total |
|---|---|---|---|
| | (Rupees in thousand) | | |
| **As at 30 June 2010** | | | |
| **Assets as per balance sheet** | | | |
| Investments | - | 1,557,459 | 1,557,459 |
| Loans and advances | 74,325 | - | 74,325 |
| Deposits | 43,314 | - | 43,314 |
| Trade debts | 4,709,853 | - | 4,709,853 |
| Other receivables | 159,140 | - | 159,140 |
| Cash and bank balances | 1,886,326 | - | 1,886,326 |
| | 6,872,958 | 1,557,459 | 8,430,417 |

| | Financial liabilities at amortized cost |
|---|---|
| | (Rupees in thousand) |
| **Liabilities as per balance sheet** | |
| Long term financing | 18,272,867 |
| Accrued mark-up | 816,436 |
| Short term borrowings | 9,441,973 |
| Trade and other payables | 2,544,926 |
| | 31,076,202 |

| | Loans and receivables | Available for sale | Total |
|---|---|---|---|
| | (Rupees in thousand) | | |
| **As at 30 June 2009** | | | |
| **Assets as per balance sheet** | | | |
| Investments | - | 1,118,971 | 1,118,971 |
| Loans and advances | 95,077 | - | 95,077 |
| Deposits | 37,040 | - | 37,040 |
| Trade debts | 1,300,366 | - | 1,300,366 |
| Other receivables | 25,324 | - | 25,324 |
| Cash and bank balances | 170,864 | - | 170,864 |
| | 1,628,671 | 1,118,971 | 2,747,642 |

| | Financial liabilities at amortized cost |
|---|---|
| | (Rupees in thousand) |
| **Liabilities as per balance sheet** | |
| Long term financing | 14,417,710 |
| Accrued mark-up | 638,872 |
| Short term borrowings | 7,342,600 |
| Trade and other payables | 1,135,361 |
| | 23,534,543 |

### 40.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Group monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term financing and short term borrowings obtained by the Group as referred to in note 5 and 9 respectively. Total capital employed includes 'total equity' as shown in the balance sheet plus 'borrowings'. The Group's Strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity.

| | | **2010** | 2009 Restated |
|---|---|---|---|
| Borrowings | Rupees in thousand | **27,714,840** | 21,760,310 |
| Total equity | Rupees in thousand | **39,838,274** | 25,565,095 |
| Total capital employed | Rupees in thousand | **67,553,114** | 47,325,405 |
| Gearing ratio | Percentage | **41.03** | 45.98 |

## 41. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue on September 9, 2010 by the Board of Directors.

## 42. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made.

## 43. GENERAL

Figures have been rounded off to the nearest thousand of Rupees unless otherwise stated.

**CHIEF EXECUTIVE OFFICER** **DIRECTOR**

# FORM OF PROXY

I/We ______________________________

of ______________________________

being a member of Nishat Mills Limited, hereby appoint ______________________________

______________________________

of ______________________________

or failing him/her ______________________________

of ______________________________

member(s) of the Company, as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30 October 2010 (Saturday), at 11.00 a.m. at Nishat House, 53-A, Lawrence Road, Lahore.

as witness may hand this __________ day of ______ 2010

Signed by the said member ______________________

in presence of ______________________________

Please affix revenue stamp Rs. 5

Signature of witness ..................................

Signature(s) of Member(s)

Name ........................................................

Address ....................................................

.................................................................

CNIC # .....................................................

**Please quote:**

| Folio No. | Shares held | CDC A/C. NO |
|---|---|---|
| | | |

**IMPORTANT:** This instrument appointing a proxy, duly completed, must be received at the Registered Office of the Company at Nishat House, 53-A, Lawrence Road, Lahore not later than 48 hours before the time to holding the annual general meeting.

AFFIX
CORRECT
POSTAGE

The Company Secretary

**NISHAT MILLS LIMITED**
Nishat House,
53 - A, Lawrence Road, Lahore.
Tel: 042-36360154, 35990035
UAN: 042-111 113 333